

August 17, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/M-21-383

Dear Mr. Seuffert:

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

In the Matter of the Petition of CenterPoint Energy for Approval for Recovery of a Natural Gas Extension Project Costs through Rate Base Treatment and for a New Area Surcharge for the Lake Jessie Project.

The Department recommends that the Commission **approve CenterPoint Energy Minnesota Gas's Petition, with the modifications described herein**. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/GEMMA MILTICH
Financial Analyst, CPA

GM/ja
Attachment



Before the Minnesota Public Utilities Commission
Response Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G008/M-21-383

I. INTRODUCTION

On June 7, 2021, pursuant to Minnesota Statutes §216B.1638 (the Natural Gas Extension Project – NGEF – Statute) and Minnesota Rule 7829.1300, CenterPoint Energy Resources Corporation, d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company), submitted a miscellaneous rate change and tariff filing (Petition) to the Minnesota Public Utilities Commission (Commission) regarding extension of natural gas service into an area near the city of Alexandria in Douglas County, Minnesota (the Lake Jessie Project).

CenterPoint indicated that its cost recovery proposals in the instant Petition are consistent with the Commission’s approvals in Docket No. G008/M-19-840, a recent petition by CenterPoint for a natural gas extension project in Nowthen, Minnesota.¹ In its Petition, the Company proposes (1) to modify its New Area Surcharge (NAS) Rider tariff to establish a 16-year term NAS for the customers located in the Lake Jessie Project area and (2) to forego project cost recovery through an NGEF rider and instead include a portion of the NGEF-rider-eligible costs in the Company’s next rate case. CenterPoint requests that the Commission approve the Petition by August 31, 2021, such that service can be extended to the Lake Jessie Project area in 2021.

On August 2, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed initial Comments, requesting that CenterPoint further explain certain aspects of the Company’s cost recovery proposals and providing partial, preliminary recommendations to the Commission. The Company included in its August 12, 2021 Reply Comments the additional explanation requested by the Department.

In the instant Response Comments, the Department offers a discussion addressing CenterPoint’s August 12, 2021 Reply Comments, and we provide a complete, finalized set of recommendations to the Commission on this matter.

¹ Petition, page 5.

II. DEPARTMENT RESPONSE

The Department reviewed CenterPoint's August 12, 2021 Reply Comments to further evaluate the reasonableness of the Company's cost recovery proposals for the Lake Jessie Project. The following is a brief discussion addressing the Lake Jessie Project cost recovery proposals along with our final conclusions and recommendations on CenterPoint's Petition.

On pages 8 – 9 of our August 2, 2021 Comments, the Department noted that, because the NAS Rider allocates utility costs to ratepayers in a direct, cost-causative manner, rather than socializing costs among all ratepayers as NGEP recovery does, it is important to understand with specificity the reason(s) why CenterPoint concluded that recovery of the incremental costs of the Lake Jessie Project cannot be routed entirely through the NAS Rider. In its Petition, CenterPoint stated that "...it was determined that the NAS alone would not generate results that would be acceptable to potential customers to encourage converting to natural gas, therefore CenterPoint Energy proposes recovery of 33% of the [Lake Jessie Project] revenue deficiency via base rates."² The Department followed up with CenterPoint to learn more about why the Company's proposed cost recovery approach (combining NAS and NGEP recovery) is the most reasonable approach for the Lake Jessie Project. In response to a Department information request, the Company provided the revised NAS rates that would result if (1) the NAS period was extended to 30 years (as opposed to the proposed 16 years) and (2) no NGEP-rider-eligible amount was factored into the project cost recovery. In its response, the Company stated that "CenterPoint does not believe this request [i.e., using the NAS Rider alone] is a feasible/reasonable alternative as the participation of customers within this scenario would be significantly lower than our originally proposed approach."³

In Table 2 of our August 2, 2021 Comments, the Department provided a comparison of the Lake Jessie Project 30-year (rather than 16-year) NAS rates that would result if no NGEP-rider-eligible amount were factored into the project cost recovery and the NAS rates approved for CenterPoint's Nowthen gas extension project in Docket No. G008/M-19-840. For ease of reference, we have copied Table 2 from our initial Comments onto the following page:

² Petition page 8.

³ Department Attachment 3 of the Department's August 2, 2021 Comments, Docket No. G008/M-21-383.

Table 2: Lake Jessie Project NAS Rates Revised to Extend Rider Period to 30 Years/Exclude NGEP Recovery and Compared with the NAS Rates Approved for CenterPoint’s Nowthen Gas Extension Project⁴

<i>Customer Class</i>	<i>Monthly Surcharge Revised to 30-Year Period and to Exclude NGEP Recovery (A)⁵</i>	<i>Monthly Surcharge Approved for Nowthen Project in Docket No. G008/M-19-840 (B)</i>	<i>Difference (A – B)</i>
Residential	\$18.23	\$23.05	(\$4.82)
Commercial A	\$28.78	\$36.39	(\$7.61)
Commercial/Industrial B	\$40.29	\$50.95	(\$10.66)
Commercial/Industrial C	\$105.51	\$115.25	(\$9.74)
Small Volume Interruptible A	\$115.11	\$134.66	(\$19.55)
Small Volume Interruptible B	\$182.25	\$1,026	(\$843.75)
Large Volume Interruptible	\$2,014.34	\$2,183.68	(\$169.34)
Large Volume Firm	\$2,014.34	\$2,183.68	(\$169.34)

Table 2 shows that if the NAS Rider period was extended to 30 years, and if NGEP recovery was excluded from the NAS calculation, the Lake Jessie Project NAS rates would be lower for each customer class than the NAS rates approved for CenterPoint’s recent gas extension project into Nowthen, Minnesota (Docket No. G008/M-19-840). In our initial Comments, the Department requested that CenterPoint explain the reason(s) why the Company believes that the revised NAS rates shown in Table 2 would result in a significantly lower number of customers signing up for service extended through the Lake Jessie Project compared to the NAS rates proposed in the initial Petition. On page 3 of its August 12, 2021 Reply Comments, CenterPoint stated:

One significant difference between the rates identified in Table 2 of the Department’s filing and the approved Nowthen rates is the timeframe for which these rates will occur. The Lake Jessie project at 30 years would result in a total NAS of \$6,563 per residential customer for the life of the project, while the approved Nowthen NAS at a time period of 16 years will result in a total expected NAS per residential customer of \$4,426. The total cost of the NAS is a factor that potential NAS project customers are aware

⁴ Data in Table 2 retrieved from Department Attachment 3 (the revised 30-year NAS rates that exclude NGEP recovery) of the Department’s August 2, 2021 Comments in Docket No. G008/M-21-383 and from Docket No. G008/M-19-840 (the NAS rates approved for CenterPoint’s Nowthen natural gas extension project).

⁵ Note that the revised NAS rates shown in Table 2 also take into account the property tax payment lag adjustment supported and discussed by the Department on pages 5 – 6 of our August 2, 2021 Comments in Docket No. G008/M-21-383.

of, and take into account, when making the decision to switch to natural gas.

The Department appreciates the Company's response, and we agree that the total NAS amount charged per customer over the life of the project would be among the relevant factors considered by a customer when deciding whether to accept the natural gas service offered by the extension project. At this time, the Department raises no further questions or objections CenterPoint's proposed cost recovery approach for the Lake Jessie Project.

As CenterPoint indicated in its Petition, it is proposing to use a cost recovery approach for the Lake Jessie Project that is consistent with what the Commission approved for the Company's Nowthen gas extension project in Docket No. G008/M-19-840.⁶ The Company's proposed cost recovery methodology would combine the NAS Rider mechanism with a modified form of NGEP recovery. In its Petition, the Company stated that "[a]ny applicable NGEP amount would be treated as normal rate base and included in the Company's 2022 rate case filing"⁷ and that "...the Lake Jessie Project costs, allocated via the NGEP legislation, will be terminated at the end of the life of the assets."⁸ The Department recommends that the Commission approve CenterPoint's proposed combination of NAS Rider and base rate cost recovery for the Lake Jessie Project.

The Department recommends that the Commission approve for the Lake Jessie Project the revised 16-year NAS rates,⁹ adjusted for the property tax payment lag, as shown in Table 1 of our August 2, 2021 Comments. For ease of reference, we have copied Table 1 from our initial Comments onto the following page; the Department supports the rates highlighted in yellow:

⁶ Petition page 9.

⁷ Petition page 6.

⁸ Petition page 8.

⁹ CenterPoint proposes that the Lake Jessie Project NAS be in effect for a period of up to sixteen years. The NAS would terminate when the projected revenue deficiency is satisfied or at the end of the sixteen years, whichever occurs first.

Table 1: Lake Jessie Project NAS Rates Revised to Account for Property Tax Payment Lag and Compared with the Initially Proposed NAS Rates¹⁰

<i>Customer Class</i>	<i>Monthly Surcharge Revised for Property Tax Adjustment (A)</i>	<i>Initially Proposed Monthly Surcharge (B)</i>	<i>Difference (A – B)</i>
Residential	\$12.89	\$12.36	\$0.53
Commercial A	\$20.34	\$19.52	\$0.82
Commercial/Industrial B	\$28.48	\$27.33	\$1.15
Commercial/Industrial C	\$74.60	\$71.59	\$3.01
Small Volume Interruptible A	\$81.38	\$78.90	\$2.48
Small Volume Interruptible B	\$128.85	\$123.65	\$5.20
Large Volume Interruptible	\$1,424.13	\$1,366.66	\$57.47
Large Volume Firm	\$1,424.13	\$1,366.66 ¹¹	\$57.47

A detailed discussion on the NAS/NGEP calculation adjustment associated with the property tax payment lag is included on pages 5 – 6 of the Department’s August 2, 2021 Comments.

III. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

Based on our review, the Department recommends that the Commission take the following action:

- Approve CenterPoint’s proposed combination of NAS Rider and base rate cost recovery for the Lake Jessie Project. The Company’s proposed approach (1) credits (reduces) the project costs to be recovered through the NAS Rider by the present value of 33% of the cumulative annual revenue deficiencies estimated over the useful life of the project, (2) foregoes NGEP-rider-eligible recovery of project costs between now and the Company’s next rate case, and (3) includes for base rate recovery in a future rate case the NGEP-rider-eligible amount applicable at the time of the relevant rate case.

¹⁰ Data in Table 1 retrieved from Department Attachment 1 (the revised NAS rates) of the Department’s August 2, 2021 Comments in Docket No. G008/M-21-383 and from Petition page 10 and Exhibit C-9 (the initially proposed NAS rates).

¹¹ The Department notes that the Large Volume Firm class NAS was documented incorrectly at Petition page 10, and the Department has provided what we understand to be the correct surcharge in Table 1.

- Approve the following 16-year NAS Rider rates for cost recovery of a portion of the Lake Jessie Project:

<i>Customer Class</i>	<i>Monthly Surcharge Revised for Property Tax Adjustment</i>
Residential	\$12.89
Commercial A	\$20.34
Commercial/Industrial B	\$28.48
Commercial/Industrial C	\$74.60
Small Volume Interruptible A	\$81.38
Small Volume Interruptible B	\$128.85
Large Volume Interruptible	\$1,424.13
Large Volume Firm	\$1,424.13

- Require CenterPoint to provide, in the future rate case in which the Company includes Lake Jessie Project costs for recovery, a discussion demonstrating that the Lake Jessie Project costs included in for recovery in base rates were reasonably and prudently incurred.
- Approve CenterPoint’s proposed customer notice, updated as necessary with the applicable effective date and approved NAS Rider rates.
- Require CenterPoint to file by March 1 of each year a report on the Lake Jessie Project that includes the following information:
 - The number of customers, divided by classes, used to calculate the NAS Rider surcharge revenue and the retail margin revenue; and
 - The actual NAS Rider surcharge and retail revenue received to date, projected surcharge revenue for the remaining term of the surcharge, and the actual project capital costs and forecasted remaining capital costs.

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CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. G008/M-21-383

Dated this **17th** day of **August 2021**

/s/Sharon Ferguson

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Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_21-383_M-21-383
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Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_21-383_M-21-383
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