June 2, 2020

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/M-20-455

Dear Mr. Seuffert:

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

> CenterPoint Energy's 2019 Conservation Improvement Program Status Report, 2019 Demand Side Management Financial Incentive, Conservation Improvement Program Tracker Report, and 2019 Conservation Cost Recovery Adjustment Aggregated Compliance Filing (*Petition*).

The Petition was filed on May 1, 2020 by:

> Ethan S. Warner
> Regulatory Analyst, Conservation Improvement Program
> CenterPoint Energy
> 505 Nicollet Mall, PO Box 59038
> Minneapolis, Minnesota 55402

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve CenterPoint's *Petition***. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ CHRISTOPHER T. DAVIS
Analyst Coordinator

CTD/ja
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G008/M-20-455

I. SUMMARY OF THE UTILITY'S FILING

On May 1, 2020, CenterPoint Energy, a Division of CenterPoint Energy Resources Corporation (CenterPoint, CPE, or the Company), submitted a filing in the present docket entitled *CenterPoint Energy's 2019 Conservation Improvement Program Status Report, 2019 Demand-Side Management Financial Incentive, Conservation Improvement Program Tracker Report and 2019 Conservation Cost Recovery Adjustment Aggregated Compliance Filing* (*Petition*) to the Minnesota Public Utilities Commission (Commission).

The Company's *Petition* included:

- a proposed 2019 Shared Savings Demand Side Management (DSM) financial incentive of $8,758,401;
- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account during 2019 resulting in a tracker balance of $2,715,768; and
- an increase in its Conservation Cost Recovery Adjustment (CCRA[1]) to $0.0591 per dekatherm (Dth) for 2020/2021;
- a monthly carrying charge rate of 0.15%; and
- proposed bill language to alert customers of the change to the CCRA.

In addition, Section I of the *Petition* contained the Company's 2019 *CIP Status Report*. Since the *Status Report* does not require Commission approval, the Commission assigned that portion of the *Petition* to a separate docket.[2]

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides its analysis and recommendations below.

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[1] CenterPoint also has a conservation cost recovery charge (CCRC), which is the amount of CIP costs built into base rates.

[2] See Docket No. G008/CIP-16-119.05.

II. COMMISSION'S 2018 ORDER

On September 11, 2019 the Commission issued its disposition in Docket No. G008/M-19-298 as follows:

1. Approved CenterPoint's proposed 2018 DSM financial incentive of $11,317,175 to be included in the Company's CIP tracker account no sooner than the issue date of this Order.
2. Approved CenterPoint's 2018 CIP tracker account, as summarized in Table 1 of the Department's comments, resulting in a December 31, 2018 tracker balance of ($6,096,809).
3. Approved a 2019/2020 CCRA of $0.00576 per therm, effective September 1, 2019.
4. Approved the Company's proposed bill message concerning its CCRA.

III. DEPARTMENT ANALYSIS

The Department presents its analysis of CPE's *Petition* below in the following sections:

- in Section III.A, CenterPoint's proposed 2019 DSM financial incentive;
- in Section III.B, CenterPoint's proposed monthly charge for its 2019 CIP tracker account;
- in Section III.C, CenterPoint's proposed 2019 CIP tracker account;
- in Section III.D, CenterPoint's proposed 2020/2021 CCRA;
- in Section III.E, CenterPoint's proposed bill language; and
- a review of CenterPoint's CIP activities for the period 2007 through 2019.

A. CPE'S PROPOSED 2019 DSM FINANCIAL INCENTIVE

1. Background and Summary of CPE's Proposed 2019 DSM Financial Incentive

The Shared Savings DSM financial incentive plan was approved by the Commission in Docket No. E,G999/CI-08-133 on January 27, 2010. The Commission approved a modified Shared Savings DSM financial incentive mechanism in its August 5, 2016, *Order Adopting Modifications to Shared Savings Demand-Side Management Financial Incentive Plan,* Docket No. E,G999/CI-08-133. The new mechanism, which began January 1, 2017, is triggered when electric utilities achieve energy savings of 1 percent, and gas utilities achieve 0.7 percent, of the utility's most recent three-year average of weather-normalized retail sales.[3] For 2018, the electric and gas incentives are capped at 12 percent of net benefits and 35 percent of Conservation Improvement Program (CIP) expenditures. The Commission's Order included the following:

[3] Excluding retail sales to customers who are owners of a large customer facility and have been granted an exemption by the Department's Commissioner under Minnesota Statutes 216B.241, Subd. 1a(b).

A. For electric utilities, the plan is modified to do the following:

1) Authorize financial incentives for a utility that achieves energy savings of at least 1.0 percent of the utility's retail sales.
2) For a utility that achieves energy savings equal to 1.0 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.7 percent of retail sales.
4) For savings levels of 1.7 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

B. For gas utilities, the plan is modified to do the following:

1) Authorize financial incentives for a utility that achieves energy savings of at least 0.7 percent of the utility's retail sales.
2) For a utility that achieves energy savings equal to 0.7 percent of retail sales, award the utility a share of the net benefits as set forth in Attachment A.
3) For each additional 0.1 percent of energy savings the utility achieves, increase the net benefits awarded to the utility by an additional 0.75 percent until the utility achieves savings of 1.2 percent of retail sales.
4) For savings levels of 1.2 percent and higher, award the utility a share of the net benefits equal to the Net Benefits Cap.

C. For all utilities, set the following Net Benefit Caps:

1) 13.5 percent in 2017,
2) 12.0 percent in 2018, and
3) 10.0 percent in 2019.

D. For all utilities, set the following Conservation Improvement Plan (CIP) Expenditure Caps:

1) 40 percent in 2017,
2) 35 percent in 2018, and
3) 30 percent in 2019.

The Commission retains certain provisions from the current Shared Savings DSM Financial Incentive Plan, with slight modifications, as follows:

A. CIP-exempt customers shall not be allocated costs for the new shared savings incentive. Sales to CIP-exempt customers shall not be included in the calculation of utility energy savings goals.

B. If a utility elects not to include a third-party CIP project, the utility cannot change its election until the beginning of subsequent years.

C. If a utility elects to include a third-party project, the project's net benefits and savings will be included in the calculation of the energy savings and will count toward the 1.5 percent savings goal.

D. The energy savings, cost, and benefits of modifications to non-third-party projects will be included in the calculation of a utility's DSM incentive.

E. The costs of any mandated, non-third-party projects (e.g., the 2007 Next Generation Energy Act assessments, University of Minnesota Initiative for Renewable Energy and the Environment costs) shall be excluded from the calculation of net benefits and energy savings achieved and incentive awarded.

F. Costs, energy savings, and energy production related to Electric Utility Infrastructure Costs, solar installation, and biomethane purchases shall not be included in energy savings for DSM financial incentive purposes.

G. The new Shared Savings DSM Incentive Plan shall be in effect for 2017-2019.

H. Utilities may discontinue the annual February 1 compliance filing because a scale of net benefits will no longer be required since the Department's proposal sets percentages at certain savings thresholds and calibrates the mechanism to dollars per unit of energy.

With respect to net benefits, CenterPoint provided in its *Petition* the benefit-cost results of the revenue requirements test associated with the Company's 2019 CIP. According to the Company, CPE's 2019 CIP activities resulted in an estimated $87,584,011 of net benefits before the requested incentive.[4] CenterPoint also stated that its CIP activities achieved first-year annual energy savings in 2019 of 2,020,149 Dth, equivalent to 1.43 percent of its retail sales to non-CIP-opt-out customers.

Based on the terms and conditions of its approved DSM incentive plan, CenterPoint requested approval of a 2019 Shared Savings financial incentive of $8,758,401.

[4] *Petition*, page 42.

2. The Department's Review of CPE's Proposed 2019 DSM Financial Incentive

Since CenterPoint exceeded energy savings equal to 1.2 percent of the Company's retail sales, the threshold at which the maximum percent of net benefits is awarded, CenterPoint is eligible for an incentive equal to 10 percent of its 2019 net benefits, or an incentive of $8,758,401 (net benefits of $87,584,011 x 10 percent = $8,758,401.) Although there is a 2019 incentive expenditure cap of 30 percent, CenterPoint's calculated incentive of $8,758,401 is lower than the Shared Savings 2019 expenditure cap of 30 percent ($8,758,401/$37,252,502 = 26 percent). Therefore, consistent with the Commission's August 5, 2016 *Order*, CenterPoint's 2019 financial incentive equals 10 percent of its 2019 net benefits.

The Department's technical analysis of the demand and energy savings that underpin CenterPoint's proposed 2019 DSM financial incentive of $8,758,401 is ongoing and will not be completed before the instant comments are due. The existence of this lag between the Company's request for recovery of the incentive and the completion of the Department's engineering review is a recurring phenomenon.

In 2019, the Department compensated for this lag by simply assuming CenterPoint's claimed energy savings for 2018 were correct as filed, with the intent to make in the instant proceeding any adjustments approved by the Deputy Commission of the Department. However, the Deputy Commissioner approved CenterPoint's 2019 Status Report, covering 2018 CIP activity, without any relevant adjustments in Docket No. G008/CIP-16-119.04, and thus none are required in this docket.[5]

In its present *Petition*, CenterPoint reported gas first-year energy savings of 2,020,149 Dth from 2019 CIP activity, and so the Department used this figure in reviewing the present docket. If the Deputy Commissioner subsequently approves changes to CenterPoint's 2019 energy savings claims that impact either recovery of CIP budgets or levels of Shared Savings DSM financial incentives, those changes can be incorporated in the Company's 2019 filing, which will be made by May 3, 2021.

The Department verified the calculation of CenterPoint's financial incentive and recommends that the Commission approve CenterPoint's proposed 2019 DSM financial incentive of $8,758,401 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket.

B. CENTERPOINT'S PROPOSED CARRYING CHARGE FOR 2019 CIP TRACKER

On page 50 of its *Petition,* CenterPoint explains that the calculation of carrying charges in the 2019 CIP Tracker for January through December is based on the short-term debt interest factor used in the 2017 rate case settlement. Based on its calculations, the Company proposes a 2019 carrying charge of 0.15%. The Department concludes that CenterPoint has correctly calculated its carrying charge and that the Commission approve a monthly interest factor of 0.15%.

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[5] The Decision was issued August 7, 2019.

C. CENTERPOINT'S 2019 CIP TRACKER ACCOUNT

In its *Petition*, CenterPoint requested approval of its report on recoveries and expenditures in the Company's tracker account during 2019. Table 1 below provides a summary of the activity in the Company's CIP tracker account during 2019.

Table 1: Summary of CenterPoint's CIP Tracker Account in 2019

Description	Time Period	Amount
Beginning Balance	January 1, 2019	($6,096,809)
CIP Expenditures	January 1 through December 31, 2019	$38,032,193
Recovery via Base Rates (CCRC)	January 1 through December 31, 2019	($38,135,049)
Recovery via CCRA	January 1 through December 31, 2019	($7,657,336)
Carrying Charges	January 1 through December 31, 2019	($208,700)
2017 DSM Financial Incentive	September 1, 2019	$11,317,175
Adjustments[6]	January 1 through December 31, 2019	$32,758
Ending Balance (Over)/Under	December 31, 2019	($2,715,768)

The Company's CIP tracker reflects the Commission's 2018 DSM financial incentive of $11,317,175, approved September 11, 2019 in Docket No. G008/M-19-298.

On pages 52-53 of its Petition, CenterPoint explained a billing error and how it rectified the billing error, as follows:

> On February 14, 2020, CenterPoint Energy identified an issue with customer billing of the CCRA of $0.0576 per Dth. When the interim CCRC ($0.2382 per Dth) was implemented on January 1, 2020 as part of the rate case filed in 2019 (Docket No. G-008/19-524) the CCRA was mistakenly zeroed out. On February 14, when this issue was identified the correct CCRA was set in the billing system, and all bills generated after that date had the correct CCRA amounts calculated.

[6] Upon implementation of the current CCRA, the Company's CIP Tracker account was adjusted to account for the misalignment of the Company's billing cycle with the October 1, 2019 effective date of the new CCRA.

When the Company became aware of this issue, it notified Commission and Department staff. Due to the misalignment of the Company's billing cycle, the Company proposed to refund CCRA amounts billed from February 14 to February 29 to ensure the effect of not billing the CCRA was equitable to all customers in January and February. In this way, the reinstatement of the CCRA would effectively occur on March 1. Commission and Department staff indicated that this approach was reasonable.

As a result of the above approach, recovery from customers (and resulting carrying charges) in the CIP Tracker needed to be adjusted in January, February, and March in order to reflect that the CCRA was not charged to any customers who used gas in January and February. [Footnote omitted]

- Attachment C-1 line 13 shows base CCRA recovery if there had not been a billing issue.
- Line 14 shows adjustments to CCRA recovery in 2020 to reflect that the CCRA was not billed or was refunded in January and February.
- Line 15 shows the net CCRA recovery as the sum of lines 13 and 14.

Below the Department includes Table 2, CenterPoint's table from page 53 of its Petition. Table 2 summarizes the Company's adjustments in detail by showing how CenterPoint accounted for the misalignment of the Company's billing cycle. These adjustments were then carried forward to the Company's Attachment C-1.

Table 2: CenterPoint's CCRA Recovery Adjustments (See Attachment C-1)

Billing Month (Columns D-O)	Month When Gas was Used	Gas Volumes Excluding CIP Exempt Customers (Dth) (Line 7)	CCRA Recovery w/o Billing Issue ($0.0576 per Dth) (Line 13)	Actual CCRA Recovery ($0.0576 per Dth) (Line 15)	Adjustments to Recovery in the Billing Month (Line 14)
January	December	6,936,041.3	$399,516	$399,516	$0
	January	18,015,064.2	$1,037,668	$0	$1,037,668
	Dec.-Jan.	24,951,105.5	$1,437,184	$399,516	**$1,037,668**
February	January	4,776,336.9	$275,117	$0	$275,117
	February	18,464,922.6	$1,063,580	$0	$1,063,580
	Jan.-Feb.	23,241,259.5	$1,338,697	$0	**$1,338,697**
March	February	4,175,793.7	$240,526	$0	$240,526
	March	17,016,172.9	$980,132	$980,132	$0
	Feb.-Mar.	21,191,966.6	$1,220,657	$980,132	**$240,526**

The first two columns above show how each month's recovery, based on a customer's billing, includes a mixture of sales during both the month of the billing and the previous month. The billing month and the month when gas is used don't exactly match up both because of the timing of when each customer class's meter is measured and because the bills of larger customers are processed the month after use. The third column illustrates gas volumes for the specified billing month. Column 4 shows the total amount of CIP expenditures that would have been recovered had there not been a billing error. Column 5 shows recovery dollars that billed correctly and don't require adjustment. Column 6 illustrates the net amount of CIP expenditures that were not recovered after taking into account the billing error and making refunds to treat all customers equally by ensuring that the CCRA started at the beginning of each month rather than in the middle[7].

The Department both reviewed CenterPoint's explanation and talked with CenterPoint staff and agree that the Company both handled the billing error in a reasonable manner and that the adjustments are properly reflected in the *Petition's* Attachment C-1: CIP Tracker and Balance Projection for 2020 with New CCRA Starting in October 2020.

The Department recommends that the Commission approve CenterPoint's 2019 CIP tracker account activity as provided in the Company's *Petition* and summarized in Table 1 above, resulting in a December 31, 2018 tracker balance of ($2,715,768).

D. CENTERPOINT'S PROPOSED 2020/2021 CCRA

Minnesota law states in relevant part that the Commission "may permit a public utility to file rate schedules providing for annual recovery of the costs of energy conservation improvements."[8] This annual CIP recovery mechanism is generally referred to as the Conservation Cost Recovery Adjustment (CCRA).

As CenterPoint stated on page 51 of its *Petition*, the purpose of the CCRA is to allow the Company to recover approved CIP expenses not recovered through the Conservation Cost Recovery Charge (CCRC), which is included in base rates. To calculate its CCRA, CenterPoint used Excel's goal-seek function[9] to find the CCRA value that would provide a year-end balance as close to zero as possible by the end of 2021. On pages 50-51 of the *Petition*, CenterPoint stated:

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[7] CPE billed the CCRA on customer's invoices from February 15-29, but subsequently refunded those amounts so that all invoiced amounts reflected no CCRA recovery for January and February. If each customer were not billed at the beginning of the month, some customers would have paid more of the CCRA than other customers would.

[8] See Minn. Stat. §216B.16, Subd. 6b(c).

[9] Goal Seek is a process whereby Excel calculates a value by performing what-if analysis on a given set of values. Excel's Goal Seek feature allows the user to adjust a value used in a formula to achieve a specific goal. Or, put another way, Goal Seek determines input values needed to achieve a specific goal.

> With this filing, CenterPoint Energy proposes to increase the CCRA to $0.0591 per Dth beginning October 1, 2020. This rate is designed to reduce the CIP Tracker balance as close to zero as possible by the end of 2021. In the event that Commission approval of the proposed adjustment is delayed beyond September 21, 2020 (in order to implement the rate change by October 1), the Company will continue to apply the current CIP Adjustment of $0.0576 per Dth up to the first of the month following Commission approval of a revised factor. In this case, the Company may recalculate the CCRA.

CenterPoint's projections for 2020 and 2021 (Attachments C-1 and BC-2 of the *Petition*) show that an increase in the CCRA from $0.0567 to $0.0591 per Dth, taking effect on October 1, 2020 and remaining in effect through 2021 would achieve a near-zero CIP Tracker balance by the end of 2021.

The Department concludes that CenterPoint's approach for estimating an appropriate CCRA level is reasonable and recommends that the Commission approve a CCRA of $0.0591 per Dth beginning October 1, 2020. The Company will continue to apply the current CIP Adjustment of $0.0576 per Dth up to the first of the month following Commission approval of a revised factor. In this case, the Company may recalculate the CCRA.

E. CENTERPOINT'S PROPOSED BILL LANGUAGE FOR ITS CCRA

CenterPoint proposed the following bill language to alert customers of the change to the CCRA:

> *The PUC has approved a Conservation Cost Recovery Adjustment (CCRA) factor of $0.00591 per therm. This charge will be used to fund energy conservation activities and has been added to your delivery charge. For more information, please call or visit our website.*

The language is the same as the language approved by the Commission last year. The Department recommends that the Commission approve the same language for use in its 2020/2021 customer notice.

F. REVIEW OF CENTERPOINT'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2008-2019)

In Attachment A, Table 1, the Department presents a historical comparison of CenterPoint's CIP activities during the period 2008 through 2019. The table provides an indication of how the Company's DSM financial incentives, carrying charges, year-end tracker balances, CIP expenditures, and energy savings have changed during that period.

An analysis of Attachment A, Table 1 indicates that, comparing the Company's 2019 achievements to its 2018 achievements, the Company's:

- First-year annual Dth savings increased 2 percent;
- Expenditures increased 7%; and
- Shared Savings incentive decreased 23%.

Comparing CenterPoint's 2019 achievements to its the average of its achievements for 2007-2009 (the three years prior to implementation of the Shared Savings DSM financial incentive), the Company's:

- First-year annual Dth savings increased 134 percent;
- Expenditures increased 328 percent;
- Shared Savings incentive increased 1000 percent;
- Cost per first-year Dth saved increased 84 percent; and
- Cost (including Shared Savings financial incentive) per first-year Dth saved increased 104 percent.

IV. THE DEPARTMENT'S RECOMMENDATIONS

The Department recommends that the Commission:

1. approve CenterPoint's proposed 2019 DSM financial incentive of $8,758,401 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's Order in the present docket;
2. approve CenterPoint's monthly carrying charge of 0.15%;
3. approve CenterPoint's 2019 CIP tracker account, as summarized in Table 1 above, resulting in a December 31, 2019 tracker balance of ($2,715,768);
4. approve a 2020/2021 CCRA of $0.0591 per Dth, effective October 1, 2019; and
5. approve the Company's proposed bill message concerning its CCRA.

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Table 1: CenterPoint Energy Historical CIP Energy Savings, Expenditures, Shared Savings Incentives, and Net Benefits

Line No.	1	3	4	5	6	7	8	9	10	11	12	13
Year	Achieved Energy Savings (Dth)	CIP Expenditures	Net Benefits	DSM Financial Incentive	Carrying Charges	Year-End Tracker Balance	Average cost per Dth Saved	Average cost per Dth Saved (including incentives)	Incentive as a % of CIP Expenditures	Incentive as a % of Net Benefits	Carrying Charges as a % of Expenditures	Year-End Tracker Balance as a % of Expenditures
2007	825,030	$7,553,362	$84,229,798	$530,405	NA		$9.16	$9.80	7%	1%	NA	0%
2008	827,340	$8,391,297	$75,518,736	$484,182	NA	$8,147,421	$10.14	$10.73	6%	1%	NA	97%
2009	938,978	$10,117,898	$97,044,437	$1,394,200	$507,115	$6,879,416	$10.78	$12.26	14%	1%	5%	68%
2010	1,300,228	$16,574,737	$69,366,886	$3,493,921	$296,465	$10,216,655	$12.75	$15.43	21%	5%	2%	62%
2011	1,488,231	$18,719,923	$65,031,976	$4,590,392	$450,945	$9,248,025	$12.58	$15.66	25%	7%	2%	49%
2012	1,330,518	$19,680,178	$54,350,138	$3,207,411	$418,624	$14,225,552	$14.79	$17.20	16%	6%	2%	72%
2013	1,584,019	$23,222,379	$88,349,823	$10,890,131	$344,598	$8,501,064	$14.66	$21.54	47%	12%	1%	37%
2014	1,701,716	$24,352,083	$80,928,431	$11,608,486	($443,194)	$2,285,733	$14.31	$21.13	48%	14%	-2%	9%
2015	1,851,930	$26,394,800	$75,451,306	$12,732,019	($13,773)	$2,932,026	$14.25	$21.13	48%	17%	0%	11%
2016	2,006,014	$29,897,277	$97,070,376	$13,791,346	($8,953)	$7,461,117	$14.90	$21.78	46%	14%	0%	25%
2017	2,632,545	$32,131,251	$160,452,310	$12,456,038	($19,848)	$3,899,087	$12.21	$16.94	39%	8%	0%	12%
2018	1,980,534	$34,888,321	$94,309,789	$11,317,175	$98,415	$6,096,809	$17.62	$23.33	32%	12%	0%	17%
2019	2,020,149	$37,252,502	$87,584,011	$8,758,401	($208,700)	($2,715,768)	$18.44	$22.78	24%	10%	-1%	-7%