COMMERCE DEPARTMENT

July 2, 2021

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-21-328

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 2020 Conservation Improvement Program Status Report, 2020 Demand Side Management Financial Incentive, Conservation Improvement Program Tracker Report, and 2020 Conservation Cost Recovery Adjustment Aggregated Compliance Filing (Petition).

The Petition was filed on May 3, 2021 by:

> Rebekah Billings
> Regulatory Analyst, Conservation Improvement Program
> CenterPoint Energy
> 505 Nicollet Mall
> PO Box 59038
> Minneapolis, MN 55459-0038

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/SUSAN L. PEIRCE
Rate Analyst Coordinator

SLP/ar
Attachment

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G008/M-21-328

I. BACKGROUND INFORMATION

On May 3, 2021, CenterPoint Energy Resources Corporation (CPE or the Company) submitted its aggregated compliance filing, which included its 2020 Conservation Improvement Program Status Report, 2020 Demand-Side Management Financial Incentive, Conservation Improvement Program Tracker Report and 2021 Conservation Cost Recovery Adjustment Aggregated Compliance Filing. (Compliance Filing)

CPE's Compliance Filing included:

- a proposed 2020 Shared Savings Demand Side Management (DSM) financial incentive of $9,935,723;
- a report of proposed recoveries and expenditures in the Company's Conservation Improvement Program (CIP) tracker account for 2020; and
- an increase in its Conservation Cost Recovery Adjustment (CCRA) to $0.0791 per dekatherm for 2021/2022.

The Department does not review the Company's 2020 CIP Status Report in these comments, as they are being addressed by staff in the Department's CIP unit in Docket No. G008/CIP-16-119.06, and do not require Commission approval.

II. DEPARTMENT ANALYSIS

A. PROPOSED 2020 DSM FINANCIAL INCENTIVE

CPE's Shared Savings DSM financial incentive plan was approved in the Commission's January 27, 2010 Order in Docket No. E,G999/CI-08-133 and modified in the Commission's August 5, 2016 Order in the same docket. For gas utilities, the financial incentive is awarded when a utility achieves energy savings of at least 0.7 percent of the utility's most recent three-year average of weather-normalized retail sales. The Commission's August 5, 2016 Order set out the following revisions for gas utility DSM financial incentive plans:

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 Benefits Cap at:

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 CIP expenditure caps:

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

The Commission retains certain provisions for 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 1.6 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-[arty 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 the 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 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.

The Commission extended the financial incentive mechanism for 2017-2019 to include 2020 in its February 20, 2020 Order in Docket No. E,G999/CI-08-133. As such the 2020 electric and gas incentives are capped at 10.0 percent of net benefits and 30 percent of CIP expenditures. The Department's CIP unit has reviewed the Company's 2020 CIP Status Report, and issued its proposed decision accepting the Report on April 21, 2021. While no final decision has been issued yet, the Department concludes that the energy savings reported in the 2020 Status Report are a reasonable basis for determining the Company's financial incentive.

CPE reported energy savings of 1,915,114 Dths for 2020, representing 1.36 percent of its retail sale, and above its 2020 goal of 1.31 percent. CPE states that this level of energy savings qualifies it for a financial incentive of up to 10 percent of the benefits achieved, but no more than 30 percent of 2020 CIP expenditures. The Company reports net benefits achieved of $99,357,233 which would result in a 10 percent financial incentive of $9,935,723. CPE's proposed financial incentive represents 27.6 percent of its total 2020 CIP expenditures, below the 30 percent cap on the financial incentive. The Department recommends the Commission approve a DSM financial incentive of $9,935,723 for CPE's 2020 CIP achievements.

B. CPE'S 2020 CIP TRACKER

Table 1, below, summarizes CPE's 2020 CIP Tracker Balance. In February 2020, the Company identified a billing error resulting from the implementation of its interim rates in its 2019 rate case. The billing error was detailed in its 2019 Tracker reporting[1]. The Department has verified that the adjustments were included in this year's tracker.

Table 1: Summary of CPE's 2020 CIP Tracker Balance

Beginning Balance (January 2020)	($2,715,768)
CIP Expenditures	$37,109,938
Net Base Rate recovery[i]	($35,143,922)
Net CCRA Recovery	($5,935,598)
Carrying Charges	($120,610)
DSM Financial Incentive	<u>$8,758,401</u>
Ending Balance (December 2020	$1,952,441

The Company calculated its carrying charges based on the short-term debt interest factor used in the 2017 rate case. For 2020, CPE calculates the monthly carrying charge to be 0.15 percent.

The Department recommends the Commission approve CPE's 2020 CIP tracker account resulting in a December 31, 2020 tracker balance of $1,952,441.

[1] Docket No. G008/M-20-455

C. CPE'S PROPOSED 2021/2022 CCRA

CenterPoint proposed to increase the CCRA from its current $0.0591 per Dth to $0.0791 per Dth to be implemented on October 1, 2021. The Company stated its intent in increasing the rate is to bring the CIP tracker balance as close to zero as possible by the end of 2022. In the event Commission approval of the CCRA is delayed beyond September 2021, the Company states it will continue to apply the current CCRA until the first month following Commission approval of a revised factor.

The Department of Commerce approved CPE's most recent Triennial CIP Plan for the period 2021-2023 on November 25, 2020 in Docket No. G008/GR-20-478. In forecasting CIP spending for 2021 – 2022, the Company used actual CIP spending for the months of January through March 2021 and the budget approved in its Triennial CIP Plan for the remaining months. Similarly, CPE used sales volumes from the 2019 rate case,with the exception of first quarter 2021 when actual sales volumes were available.

In calculating its CCRA, the Company used the approved annual carrying charge of 1.83 percent from its 2017 rate case for the period January through May 2021. Beginning in June 2021, the Company used the approved short-term debt factor of 1.43 percent from its 2019 rate case for the remainder of the period. CPE also assumed it would receive the DSM financial incentive requested in the instant filing, as well as a 10 percent financial incentive for the current year. Given the changes to the carrying charge, as well as the projected spending plans, the Company proposed a CCRA of $0.0791 effective October 1, 2021. The Department recommends approval.

D. PROPOSED BILL LANGUAGE

CPE proposed the following bill language to notify customers of the change in the CCRA:

> The PUC has approved a Conservation Cost Recovery Adjustment (CCRA) factor of $0.0891 per dekatherm. 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 Company stated its website address and phone numbers for contacting customer service representatives already appear near the bill message portion of a customer's bill and are not separately included in the bill message.

In addition to the proposed bill language, the Company submitted a proposed tariff sheet reflecting the change to the CCRA. The Department has reviewed the billing language and the tariff sheet and recommends approval.

E. REVIEW OF CENTERPOINT'S CIP ACHIEVEMENTS AND FINANCIAL INCENTIVES (2008-2020)

In Attachment A, Table 1, the Department presents a historical comparison of CenterPoint's CIP activities during the period 2008 through 2020. 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 2020 achievements to its 2019 achievements, the Company's:

- First-year annual Dth savings declined 5 percent;
- Expenditures declined 3%;
- Net benefits increased 13%, and
- Shared Savings incentive increased 23%.

Comparing CenterPoint's 2020 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 122 percent;
- Expenditures increased 314 percent;
- Shared Savings incentive increased 1200 percent;
- Cost per first-year Dth saved increased 87 percent; and
- Cost (including Shared Savings financial incentive) per first-year Dth saved increased 119 percent.

III. DEPARTMENT RECOMMENDATIONS

The Department recommends that the Commission:

- Approve CenterPoint Energy's 2020 DSM Financial Incentive of $9,935,723;
- Approve CenterPoint's 2020 CIP tracker balance account as summarized below:

Table 1: Summary of CPE's 2020 CIP Tracker Balance

Beginning Balance (January 2020)	($2,715,768)
CIP Expenditures	$37,109,938
Net Base Rate recovery[ii]	($35,143,922)
Net CCRA Recovery	($5,935,598)
Carrying Charges	($120,610)
DSM Financial Incentive	$8,758,401
Ending Balance (December 2020	$1,952,441

- Approve an increase in the 2021/2022 CCRA to $0.0791 per Dth, effective October 1, 2021; and
- Approve the Company's proposed bill message regarding the CCRA, and its proposed tariff sheet.

/ar

[i] Reflects adjustments for interim rate recovery in Docket No. G008/GR-19-524
[ii] Reflects adjustments for interim rate recovery in Docket No. G008/GR-19-524

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 first-year 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%
2020	1,915,114	$35,993,594	$99,357,233	$9,935,723	($120,610)	$1,952,441	$19	2398%	28%	10%	0%	5%