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April 18, 2025

VIA EDOCKETS

Mr. Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

Re: *In the Matter of the Petition by CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*
Docket No. G-008/GR-23-173

Dear Mr. Seuffert:

The Minnesota Department of Commerce recommends that the Public Utilities Commission accept the settlement agreement reached by the parties to this proceeding. As Administrative Law Judge Ann C. O'Reilly recognized, the settlement is comprehensive, resolves each issue based on substantial record evidence, and is in the public interest.¹ As discussed below, the settlement fairly resolves disputed cost of capital and revenue requirement issues. The settlement is a good result for Minnesota ratepayers that gives them access to safe, reliable service at just and reasonable rates.

Cost of Capital

The settlement agreement generally holds CenterPoint's return on equity ("ROE") flat from its prior rate case. In the 2021 rate case, the Commission approved a 9.39% ROE for CenterPoint. In this case, the parties agreed to a 7.07% cost of capital.² This figure reflects a 9.39% ROE for 2024 and an immaterially higher figure for 2025 due to slight capital structure variations year-to-year. While higher than the Department's position in direct testimony, it is nearly 100 basis points lower than CenterPoint's original request and is a good outcome given financial market volatility and inflationary pressures. In total, the cost of capital reflected in the settlement will save customers approximately \$10.5 million annually in 2024 and 2025 relative to CenterPoint's original request.

¹ ALJ REPORT ¶¶ 53-54 (Feb. 22, 2024) (eDocket No. 20252-215373-01).

² Settlement Agreement at 3 (Nov. 25, 2024) (eDocket No. 202411-212407-01).

Revenue Requirement Issues

The settlement agreement substantially reflects the Department's direct testimony recommendations. CenterPoint and the other settling parties agreed to the Department's recommendations to: (a) exclude a purported prepaid pension asset from the utility's rate base,³ (b) cap recovery of executive compensation,⁴ (c) correct the utility's Gas Affordability Program tracker balance,⁵ (d) substantially reduce test-year property tax expense,⁶ (e) change the utility's property tax tracker balance to reflect December 31, 2023 actuals,⁷ (f) increase the utility's estimated test-year other operating revenues,⁸ (g) increase estimated test-year liquefied natural gas sales, (h) cap short-term incentive pay at 15% of base pay for ratemaking purposes,⁹ and (i) reduce estimated test-year credit card fees.¹⁰ In total, these adjustments save ratepayers approximately \$9.1 million in 2024 and \$9.9 million in 2025.

Overall Rate Increase

While the Department largely obtained its recommended financial adjustments, the settlement amounts to a 7.8% rate increase over three years, including flat rates in 2026. Much of this increase is driven by planned capital projects and previously authorized Natural Gas Innovation Act ("NGIA") costs. For example, CenterPoint included rate base additions of \$297 million in its 2024 test year and \$317 million in its 2025 test year.¹¹ Within these totals, CenterPoint included \$58.6 million and \$65.5 million in its respective 2024 and 2025 test years for integrity management projects and \$26.9 million and \$27.5 million in 2024 and 2025 respectively for distribution system expansion.¹² Similarly, NGIA amortization expenses were a significant rate increase driver: approximately \$7.7 million in 2025, or 18% of the total 2025 test-year revenue deficiency.¹³

The Department appreciates this opportunity to reiterate its support for the settlement agreement. The Department looks forward to answering any questions that Commissioners might have about the agreement at the appropriate time.

³ *Id.* at 4.

⁴ *Id.* at 14.

⁵ *Id.* at 6.

⁶ *Id.* at 5.

⁷ *Id.*

⁸ *Id.* at 12.

⁹ *Id.* at 13.

¹⁰ *Id.* at 15.

¹¹ Ex. CPE-13 at 11 (Sudbury Direct) (Nov. 1, 2023) (eDocket No. 202311-200110-01).

¹² *Id.* at 13.

¹³ The 18% figure reflects the \$7.7 million 2025 test year expense as a percentage of the total 2025 revenue deficiency of \$42.7 million. *Compare* Ex. OAG-4 (CenterPoint response to OAG IR No. 1070) (Dec. 12, 2024) (eDocket No. 202412-212941-01), *with* Settlement Agreement at 2.

Mr. Will Seuffert
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By copy of this letter, all parties have been served. A declaration of service also is enclosed.
Thank you for your attention to this matter.

Sincerely,

/s/ **Richard Dornfeld**

RICHARD DORNFELD

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Attorney for Minnesota Department of Commerce

Enclosures

cc: Attached Service List

|#6005907-v1

DECLARATION OF SERVICE

**Re: *In the Matter of the Petition by CenterPoint Energy Minnesota Gas for Authority
to Increase Natural Gas Rates in Minnesota***
Docket No. G-008/GR-23-173

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

I, LIZ SODERSTROM, hereby state that on April 18, 2025, I filed, by electronic eDockets, the attached **Minnesota Department of Commerce's letter in support of settlement** and eServed or sent by U.S. Mail, as noted, to all parties on the attached service list.

See attached service list.

I declare under penalty of perjury that everything I have stated in this document is true and correct.

/s/ Liz Soderstrom

LIZ SODERSTROM

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