MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	February 8, 2017	Agenda Item 2*
Company	CenterPoint Energy (CPE, CenterPoint, Company)	
Docket No.	**G-008/GR-13-316** In the Matter of an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota	
Issue	1. Should the Commission accept CenterPoint's annual revenue decoupling evaluation report for the period ended June 30, 2017, and approve CenterPoint's revenue decoupling rate adjustments?	

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✓ **Relevant Documents**	**Date**
CenterPoint Energy – 2017 Decoupling Evaluation Report	September 1, 2017
CenterPoint Energy – Request to Extend Decoupling	September 1, 2017
Minnesota Department of Commerce – Comments on CenterPoint's Request to Extend the Revenue Decoupling Rider	September 26, 2017
Minnesota Department of Commerce – Comments	October 30, 2017
CenterPoint Energy – Reply Comments	November 13, 2017
Minnesota Department of Commerce – Revised Comments	November 13, 2017

I. Statement of the Issues

Should the Commission accept CenterPoint's annual revenue decoupling evaluation report for the period ended June 30, 2017, and approve CenterPoint's revenue decoupling rate adjustments?

II. Introduction

This is the Commission's second annual review of CenterPoint's full-decoupling pilot program. Previously, the Company had a partial-decoupling pilot that ended on June 30, 2013.

The Company and the Department ("DOC") are in agreement on recommending that the Commission:

1. Accept CenterPoint's Evaluation Report ("Report").
2. Approve CenterPoint's revenue decoupling rate adjustments to go into effect on September 1, 2017.

On August 2, 2017, CenterPoint filed its 2017 Rate Case[1] and requested that the pilot be extended permanently.[2] On September 1, 2017, the Company filed a Request to Extend Decoupling until the Commission makes a final decoupling determination in the 2017 rate case.

III. Background

Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

A. Reduce CenterPoint's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.
B. Achieve energy savings, and
C. Not harm ratepayers.

Pilot Revenue Decoupling Program

On June 9, 2014, the Commission issued its Findings of Fact, Conclusions of Law, and Order (Order) in CenterPoint Energy's 2013 General Rate Case. As part of this Order, the Commission authorized a three-year, full-decoupling pilot program (Program) that encompassed all customer classes except for market-rate customers. Included in its Order, the Commission

[1] Docket No. G-008/GR-17-285

[2] Drews (CPE) Direct, page 12

instructed CPE to file an annual evaluation report. This Report encompassed the Program's second year which from July 1, 2016 through June 30, 2017.

IV. Parties' Comments

A. CenterPoint – Evaluation Report

On September 1, 2017, CenterPoint submitted its second annual report covering the year of July 1, 2016 through June 30, 2017. The Company stated that, as a result of lower consumption, the reporting period's revenue shortfall was $20,394,443. Additionally, since RDM recoveries are volumetric, the Company under-recovered $3,017,404 through the report year's RDM. Thus the total amount to be recovered in the upcoming year is $23,411,848. A summary of amounts to be recovered, by class, is provided in Table 1:

Table 1 - Decoupling Adjustment Balance through June 30, 2017

Class	Decoupling Adjustment Balance through June 30, 2017	Adjustment Made to Reflect 10% Cap	Prior Period Balance	Total
Residential	$16,783,444		$2,186,838	$18,970,282
Commercial A	$360,457		$82,456	$442,912
Commercial & Industrial B	$1,315,518		$161,724	$1,477,242
Commercial & Industrial C	$752,573		$62,822	$815,395
SVDF A	$1,565,063	($518,502)	$175,096	$1,221,656
SVDF B	$509,931		$78,258	$588,188
LVDF	($110,131)		$189,449	$79,319
Large Volume General Firm	($263,909)		$80,762	($183,14)
Total	$20,912,947	($518,502)	$3,017,404	$23,411,848

CenterPoint noted that, since the decoupling adjustment surcharge only applies to non-gas margins, ratepayers retained their cost-of-gas savings. For instance, during the evaluation year, residential customers used approximately 8.4 million fewer dekatherms of gas (for all reasons, including conservation, weather, etc.) which translated into a $53 million cost-of-gas savings; therefore, despite the $16.8 million decoupling surcharge, residential ratepayers still saved $36.2 million.

Decoupling's volumetric adjustment factors and average monthly impact, by class, is summarized in Table 2:

Table 2 - Decoupling Adjustment Factors and Average Monthly Impact

Class	Decoupling Adjustment per Therm	Average Monthly Use (in Therms)	Average Monthly Decoupling Adjustment
Residential	$0.02660	77	$2.05
Commercial A	$0.01985	64	$1.27
Commercial & Industrial B	$0.02508	250	$6.27
Commercial & Industrial C	$0.00284	1,274	$3.62
SVDF A	$0.01382	3,800	$52.53
SVDF B	$0.00990	12,600	$124.70
LVDF	$0.00037	64,900	$24.08
Large Volume General Firm	($0.01719)	33,000	($567.38)

Regarding conservation, CenterPoint stated that, when compared to the 2007-2009 pre-decoupling period, 2016 energy savings increased by 132 percent and Conservation Improvement Program (CIP) expenditures increased by 236 percent.

B. Department of Commerce – Comments

On September 26, 2017, the Department filed comments recommending that the Commission approve CenterPoint's request that the pilot be extended until the Commission makes a final decoupling determination in the pending 2017 rate case, in docket 17-285.

On November 1, 2017, the Department filed comments on CenterPoint's Evaluation Report and recommended that the Commission allow CenterPoint to continue assessing its decoupling program and approve the Company's annual decoupling adjustments. As listed below, the DOC's filing also provided analysis of several subjects.

1. Decoupling's Impact on CenterPoint's Increase in Energy Savings

The Department noted that, during both of CenterPoint's pilots, the Company's energy savings did increase; however, the DOC concluded that these savings were not solely due to decoupling. The Department listed the following factors as possible contributors to the achieved energy savings:

- Minnesota adopted an energy savings goal of 1.5% of retail sales.
- The Shared Savings Demand Side Management (DSM) Financial Incentive was increased for utilities to encourage them to work towards and surpass the State energy savings goal,
- Federal tax incentives to encourage homeowners to make energy-efficient investments in their home were in effect during this time, and
- Customers became more aware of energy conservation in general.

2. Level of Energy Savings

As shown in Table 3, CenterPoint's 2016 energy savings achievements were its highest ever. Furthermore, total savings steadily increased every year except for 2012. For 2016, the Residential and Commercial and Industrial Classes achieved record savings; however, the Low-Income Class savings were below the 2007-09 Average.

Table 3 - CenterPoint Historical First-Year CIP Energy Savings (Dth) for Residential, Low-Income Residential, and Commercial and Industrial Customer Classes

Year/Period	Residential	Low- Income	Commercial and Industrial	Overall Program
2007-09 Average	203,100	16,199	644,424	863,723
2010	267,137	15,243	1,017,848	1,300,228
2011	467,107	14,693	1,004,431	1,486,231
2012	496,194	13,510	820,814	1,330,518
2013	515,946	17,075	1,037,790	1,570,810
2014	648,482	21,986	1,031,248	1,701,716
2015	682,540	36,937	1,132,452	1,851,930
2016	671,984	14,250	1,312,399	2,006,014[3]
2016 Percent Change from 2007-2009 Average	231%	-12%	104%	132%

As summarized in Table 4, CenterPoint's energy savings, as a percent of 20-year weather-normalized retail sales, increased from 0.54% in 2007 to 1.44% in 2016.[4]

Table 4 – CenterPoint's CIP Energy Savings as a Percent of Weather-Normalized Sales

CIP Plan Period	Year	Applicable Three-Year Average 20-Year Weather Normalized Sales (Dth)	Annual Energy Savings (Dth)	Energy Savings as a Percent of Sales
2007-2008 Biennial Period	2007	154,110,813	825,030	0.54%
	2008	154,110,813	827,340	0.54%
Extension of 2007-2008 Biennial	2009	154,110,813	938,798	0.61%
2010-2012 Triennial Period	2010	150,775,872	1,300,228	0.86%
	2011	150,775,872	1,486,231	0.99%
	2012	150,775,872	1,330,518	0.88%
2013-2015 Triennial Period	2013	139,161,784	1,570,810	1.13%
	2014	139,161,784	1,701,716	1.22%

[3] Staff notes that this total does not cross-foot when the individual savings are added; however, the small discrepancy does not materially impact the savings analysis.

[4] The Department noted that, if 10-year weather normal is used, then 2016 energy savings would be 1.47%.

CIP Plan Period	Year	Applicable Three-Year Average 20-Year Weather Normalized Sales (Dth)	Annual Energy Savings (Dth)	Energy Savings as a Percent of Sales
	2015	139,161,784	1,851,930	1.33%
Extension of 2013-2015 Triennial	2016	139,161,784	2,006,014	1.44%

The Department, as in previous years, attributed those energy savings to the following factors:

- the level of first-year energy savings;
- the different lifetimes of the mix of energy savings achieved each year (for example, large commercial and industrial projects generally have longer lifetimes; even if CPE achieved the same first-time energy savings in two years, the lifetime energy savings for CIP achievements can be higher if there is a higher concentration of longer term projects in the portfolio of CIP projects); and
- changes in lifetime assumptions between triennial CIPs (*e.g.,* the assumed lifetime for behavioral change projects is lower now than when these programs were first introduced).

The Department noted that the third factor makes it difficult to compare changes in lifetime energy savings between triennial CIPs; however, based on the assumptions used at the time for each CIP triennial, CenterPoint's 2014-2016 lifetime energy savings were 53 percent higher than the Company's 2007-2009 lifetime energy savings.

To put CenterPoint's savings in context, the Company's residential customer uses approximately 92 Dth per year on average. In 2016 CPE's lifetime energy savings were 19.6 million Dth. Consequently, the Company's 2016 lifetime energy savings were enough to provide natural gas service to more than 213,000 residential customers for a year.

Based on its analysis, the Department concluded that CenterPoint's energy savings have continued to grow since the Company implemented its revenue decoupling mechanisms.

3. Energy Savings Expenditures

In Table 5, the Department showed that CenterPoint's 2016 CIP expenditures were more than triple its pre-decoupling annual CIP expenditures.

Table 5 - Comparing 2016 CIP Expenditures with Average of Pre-Decoupling (2007-2009) CIP Expenditures

Year/Period	Residential	Low-Income	Commercial and Industrial	Other Projects	Overall Program
2007-09 Average	$2,731,997	$1,787,613	$3,722,836	$444,749	$8,687,195
2010	$7,861,852	$2,121,325	$5,886,263	$705,297	$16,574,737
2011	$10,715,062	$1,867,663	$5,360,144	$771,054	$18,713,923
2012	$10,801,865	$1,977,250	$5,278,953	$1,033,732	$19,091,800
2013	$12,868,507	$2,915,754	$5,875,196	$1,170,253	$22,829,710

Year/Period	Residential	Low-Income	Commercial and Industrial	Other Projects	Overall Program
2014	$14,054,870	$2,207,285	$6,314,013	$1,125,353	$23,701,520
2015	$15,397,531	$2,665,523	$6,833,760	$996,804	$25,893,618
2016	$17,546,421	$2,701,799	$7,873,273	$1,107,040	$29,228,533
2016 Percent Change from 2007-2009	542%	51%	111%	149%	236%

4. Changes in Cost per Dth Saved

The Department pointed out that CenterPoint's first-year energy savings cost was $14.57 per Dth, or 45% higher the pre-decoupling average of $10.03 per Dth; however, since 2012, the first-year energy savings cost has been stable.

The Department added that CenterPoint's lifetime energy savings cost an average of $1.41 per Dth in 2013-2015 as compared to $0.71 per Dth in 2007-2009 (three years prior to decoupling).

5. Under/Over Recovery of Revenues

The Department noted that warmer than normal weather conditions resulted in the under-recoveries summarized in Table 1 above.

6. Decoupling Adjustment Calculation

As illustrated in Table 6, the Department indicated that, over the two full revenue decoupling periods, CenterPoint's RD Rider has resulted in:

- Before cap net surcharges of $47,368,559.
- Reductions due to 10% cap of $782,672.
- Total after cap net surcharges of $46,585,887.
- A net refund of $267,829 for CenterPoint's Large Volume Dual Fuel A customers.[5]

Table 6: CenterPoint's Revenue Decoupling Calculations

	2015-2016 Evaluation Plan			2016-2017 Evaluation Plan		
Customer Class	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap
Residential	$18,207,484	$18,207,484	$0	$16,783,444	$16,783,444	$0
Commercial A	$972,968	$956,658	$16,310	$360,457	$360,457	$0
Commercial & Industrial B	$1,602,739	$1,354,880	$247,859	$1,315,518	$1,315,518	$0

[5] The Department's comments erroneously identified the Small Volume Dual Fuel as the recipient of the net refund.

	2015-2016 Evaluation Plan			2016-2017 Evaluation Plan		
Customer Class	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap
Commercial & Industrial C	$3,422,764	$3,422,764	$0	$752,573	$752,573	$0
SVDF A	$1,043,228	$1,043,228	$0	$1,565,063	$1,046,560	$518,503
SVDF B	$600,861	$600,861	$0	$509,930	$509,930	$0
LVDF	$609,489	$609,489	$0	($110,130)	($110,130)	$0
Large Volume General Firm	($3,921)	($3,921)	$0	($263,909)	($263,909)	$0
Total	$26,455,612	$26,191,443	$264,169	$20,912,947	$20,394,444	$518,503

7. Recommendations

The Department recommended that adjustment factors shown in Table 2 (on page 3 of the briefing papers) be approved and that the Commission allow their implementation to begin September 1, 2017.

V. Staff Comments

The 2017 Report included spreadsheets showing the calculation of each class' 2017 adjustment amount; however, no spreadsheet was provided for the prior period balance. Using the data provided, Staff was able to confirm, within reason, the $3 million prior balance. In order to facilitate analysis in future years, the Commission may want to consider requiring the Company to include live spreadsheets,[6] with formulas intact, that provide all calculations for new annual decoupling amounts, the reconciliation for the prior year's true up amount and the new decoupling factors.

In its 2017 rate case filing, CenterPoint requested that the decoupling pilot be made permanent; however, since the pilot is scheduled to end prior to the conclusion of the rate case, the Company requested that the pilot be extended. Staff does not object to the extension; however, Staff points out that changes to the decoupling formula may be an issue in the rate case. In order to avoid confusion, the Commission may want to condition the extension of the program by explicitly stating that, if any changes to the decoupling formula are approved in the rate case, then those changes will apply to the extension as well.

Regarding acceptance of CenterPoint's 2017 Report, Staff concurs with the Department's analysis and supports the DOC's recommendations.

[6] In Excel format.

VI. Decision Alternatives

<u>2017 Annual Decoupling Evaluation</u>

1. Accept CenterPoint's 2016 revenue decoupling evaluation report. (CPE, DOC)

2. Reject CenterPoint's 2016 revenue decoupling evaluation report.

<u>Annual Decoupling Adjustment Factors</u>

3. Approve CenterPoint's revenue decoupling adjustment factors. (CPE, DOC)

4. Reject CenterPoint's revenue decoupling adjustment factors and determine what the alternative factors should be.

<u>Extension Request</u>

5. Approve CenterPoint's request that the decoupling pilot be extended until the Commission makes a final decoupling determination in the 2017 rate case. (CPE, DOC)

6. Deny CenterPoint's request that the decoupling pilot be extended until the Commission makes a final decoupling determination in the 2017 rate case and allow the pilot to expire, as scheduled, on June 30, 2018.

7. If the extension is granted and changes to the decoupling formula are approved in CenterPoint's rate case, then require CenterPoint to apply the new RD formula during the extension period. (Staff)

<u>Other</u>

8. As part of all future Annual Reports, order CenterPoint to include live spreadsheets, with formulas intact, that provide all calculations for new annual decoupling amounts, the reconciliation for the prior year's true up amount and the new decoupling factors. Spreadsheets should be provided in an Excel format. (Staff)