Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: February 4, 2016 .... ****Agenda Item #__2_**

Company:	CenterPoint Energy Minnesota Gas (CenterPoint Energy)
Docket No.	**G-008/M-15-644** In the Matter of CenterPoint Energy's Request for Changes in Demand Units
Issue:	Should the Commission approve CenterPoint Energy's request to implement changes in demand units in its monthly Purchased Gas Adjustment effective November 1, 2015? Should the Commission require a different allocation of storage costs?
Staff:	Sundra Bender .... 651-201-2247 Bob Brill...651-201-2242

Relevant Documents

CenterPoint Energy Initial Filing (TRADE SECRET)...July 1, 2015
Department Comments and TRADE SECRET Attachment 1...............................August 31, 2015
CenterPoint Energy Reply Comments (TRADE SECRET) .... September 10, 2015
CenterPoint Energy Other-Supplemental Demand (TRADE SECRET)..............October 30, 2015
CenterPoint Energy Other Additional Entitlement (TRADE SECRET)...........November 30, 2015
Department Response to Reply Comments ....December 16, 2015
Department TRADE SECRET Version of Attachment 1.................................December 16, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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Statement of the Issue

- Should the Commission approve CenterPoint Energy's (CenterPoint) request to implement changes in demand units in its monthly Purchased Gas Adjustment effective November 1, 2015?

- Should the Commission require a different allocation of storage costs?

Introduction

The purpose of these briefing papers is to provide additional discussion of the storage cost allocation issue for the Commission to consider before making its decision.

Minnesota Rules – Filing upon Change in Demand

Minnesota Rule, part 7825.2910, subpart 2[1] require gas utilities to make a filing whenever there is a change to its demand-related entitlement services provided by a supplier or transporter of natural gas.

Should the Commission approve CenterPoint Energy's (CenterPoint) request to implement changes in demand units in its monthly Purchased Gas Adjustment effective November 1, 2015?

CenterPoint Energy plans to add 31,662 DT of additional entitlements for the 2015-2016 winter season, with a corresponding increase of 18,743 DT in the summer. Of the 31,662 DT additional entitlements, 24,914 DT are entitlements sourced from Viking Pipeline, resulting in a net increase in design-day deliverability of 6,748 DT. However, this increase was offset by a decrease in Propane Peak Shaving daily capability of 7,600 DT, for an overall net decrease in total design-day entitlement plus peak shaving of 852 DT. In supplemental filings, CenterPoint Energy added 1,995 DT/day units of winter entitlement on NNG to meet its Carlton obligation, added 10,000 DT additional units of three-month winter entitlement on Viking Pipeline, and added an additional 390 DT/day units of winter entitlement and 195 DT/day of summer entitlement on NNG. CenterPoint Energy also updated the pipeline rates, the NNG Base/Variable split, the seasonal reservation schedule, and the NGPL cost allocation between Firm and SVDF due to changes in sales estimates.

According to the Department's December 16, 2015 *Response Comments*, the impact of the changes in demand increased overall demand costs from June 2015 by $0.00223 per therm (before the demand smoothing factor) and were reflected cumulatively in the Company's December 2015 PGA billing rates. The annual effect for a typical residential heating customer using 881 therms is an increase of $1.96.

[1] Filing upon a change in demand, is included in the Automatic Adjustment of Charges rule parts 7825.2390 through 7825.2920 and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

PUC staff reviewed CenterPoint's 2015-2016 Demand Entitlement petition, and the comments filed by the Department and CenterPoint. In its December 16, 2015 *Response Comments*, the Department recommended that the Commission:

- Approve CenterPoint's proposed level of demand entitlement; and
- Approve the design-day level proposed by CenterPoint.

PUC staff agrees with these Department recommendations.

Should the Commission require a different allocation of storage costs?

Background

In its comments, the Department revisited the issue of the allocation of storage costs between commodity and demand which corresponds to who pays, firm and interruptible customers or just firm customers. The Department stated that it would not object to staff's previously provided alternative from Docket No. G-008/M-14-561 (docket 14-561) that would allocate storage costs based on annual capacity and Maximum Daily Quantity (MDQ),[2] as it allocates more of the costs that benefit interruptible customers to commodity.

Gas costs classified as demand are charged to firm customers, whereas costs classified as commodity are allocated between firm and interruptible sales service[3] customers based on use.

In CenterPoint's previous demand entitlement docket, docket 14-561, CenterPoint proposed to allocate two new storage contracts (one with BP and one with Northern Natural Gas for Firm Deferred Delivery (FDD)) 75% to demand and 25% to commodity. In briefing papers in docket 14-561, staff provided historical background and context of how other utilities allocated storage costs between demand and commodity.

Specifically, the Commission previously required[4] all the natural gas utilities to make supplemental filings, in their then pending 2007 annual demand entitlement dockets, addressing the issue of the inter-class allocation of Producer Demand (supplier reservation) fees and Storage (Reservation and Capacity) costs. In that Order,[5] the Commission stated:

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[2] In CenterPoint's last demand entitlement docket, docket 14-561, PUC staff provided a couple of alternatives to CenterPoint's proposal to allocate the fixed costs of two new storage contracts 75% to demand and 25% to commodity. One of the alternatives was to allocate the costs associated with the annual capacity of gas to commodity costs and the costs associated with the maximum daily quantity (MDQ) that can be withdrawn 75% to demand and 25% to commodity. The other alternative was to allocate the fixed storage costs 100% to commodity.

[3] Sales service or system sales customers are customers that buy their gas from CenterPoint's regulated merchant service. Transportation (or transport) customers, on the other hand, do not.

[4] February 6, 2008 ORDER ACTING ON CERTAIN GAS UTILITIES' ANNUAL REPORTS AND TRUE-UP PROPOSALS, DEFERRING ACTION ON OTHERS, AND REQUIRING SUPPLEMENTAL FILINGS IN RELATED DOCKETS, in the 2006 Annual Automatic Adjustment report, Docket No. E,G-999/AA-06-1208 and the 2007 demand entitlement dockets of the individual natural gas utilities.

[5] Ibid.

> In the past, Minnesota gas utilities and regulators have generally treated Producer Demand and Storage costs as incurred for the benefit of firm customers and therefore properly allocated to and recovered from firm-service customers' rates. As the natural gas marketplace has become more complex, however, gas purchasing practices have changed, and it now appears that, at least in some cases, utilities are incurring Producer Demand and Storage costs not just to ensure reliable supplies for their firm service customers, but also to round out their supply portfolios and to cushion the price volatility associated with serving interruptible customers.

Staff noted that some storage services such as Northern Natural's FDD service, break their fixed fees down into Reservation fees (to reserve the maximum daily injection/withdrawal amount) and Capacity fees (the amount of annual physical storage capacity purchased)). Staff further noted that:

> In their 2007 demand entitlement dockets, Docket Nos. G-002/M-07-1395 and G-004/M-07-1401, respectively, Xcel Energy and Great Plains Natural Gas Company, proposed allocating the fixed storage charge associated with the contractual share of the total annual cycle quantity to firm and interruptible customers based on sales volumes (like commodity costs are allocated), because they believed that interruptible customers as well as firm customers benefit from the use of storage gas. However, both Xcel Energy and Great Plains proposed to continue charging the fixed cost associated with the maximum daily quantity (MDQ) of gas that may be withdrawn as a demand charge allocated to firm customers only. The reasoning was that the reservation of the MDQ amount was contracted for to ensure availability of a specific volume of firm supply on a peak day to meet firm demand under design-day conditions. The Commission accepted both of their proposals. Minnesota Energy Resources Corporation and Interstate Power and Light both allocate all of their FDD storage fixed costs like commodity, where the costs are allocated to both firm and interruptible sales customers based on sales.

Since CenterPoint explained that the two new storage contracts were to be used as swing gas and would provide added flexibility, price protection, the resolution of monthly imbalance volumes and capture the often favorable difference in summer prices versus winter prices, staff provided two additional decision alternatives for the allocation of the fixed storage costs as follows:

1. Require CenterPoint to allocate the fixed costs associated with the two new storage contracts 100% to commodity; or
2. Require CenterPoint to allocate:
    a. all of the new fixed storage costs associated with the annual capacity (amount) of gas that can be stored to commodity costs; and
    b. all of the new fixed storage costs associated with the maximum daily quantity (MDQ) that can be withdrawn (peak day deliverability) like supplier reservation fees, with 75% allocated to demand costs (allocated to firm customers only) and 25% allocated to commodity costs (allocated to firm and interruptible customers).

The Commission ultimately approved CenterPoint's proposed allocation of 75% to demand and 25% to commodity, but suggested that Staff's proposed options could be explored further in a future docket.

Department - Comments

In its August 31, 2015 *Comments* in the current docket, the Department stated:

> Based on Staff's discussion provided in the briefing papers in Docket 14-561, the Department sees consistency and fairness in the proposal to split the allocation of costs between those associated with annual storage capacity and maximum daily quantity. To explore this allocation in the context of CenterPoint's contracts, the Department requests that CenterPoint provide in its Reply Comments the percentage breakdown of the costs associated with the two new storage contracts between annual storage capacity and maximum daily quantity.

CenterPoint – Reply Comments

In its September 10, 2015 reply, CenterPoint stated that the BP storage contract does not separate pricing for annual storage capacity vs. Maximum Daily Quantity (MDQ). For the Northern Natural Gas FDD storage contract, the cost is split nearly 50% for annual storage capacity and 50% for MDQ.

CenterPoint further stated:

> CenterPoint Energy proposed the 75 percent demand / 25 percent commodity cost allocation for the two storage agreements because the estimated costs represent the fixed-cost (demand) portion of the storage services that were contracted to serve swing supplies. Under the terms of the storage contracts, gas is brought to CenterPoint Energy's distribution system as needed, just like swing supplies that have a reservation component. In the February 28, 2012 order in the G-008/M-07-561 and G-008/M-11-1078 dockets, this kind of cost was ordered to be split 75% demand and 25% commodity to reflect that some of the fixed-cost portion of the storage costs should be borne by dual fuel customers as they use some of the storage supplies throughout the winter when not required for firm supply (ordering point 7).
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> In the present docket, CenterPoint Energy proposes to leave the storage cost allocation as originally proposed, but provides the information requested for further review by the Department.

Department – Response Comments

In its December 16, 2015 *Response Comments*, the Department stated:

> The Department would not object to Staff's alternative allocation based on annual capacity and MDQ, as it allocates more of the costs that benefit interruptible customers to commodity. Should the Commission choose to consider this option, the Department provides, as Trade Secret Attachment 1, the impact of the alternative allocation for an average user on an annual basis.

PUC Staff Comment

As noted above, CenterPoint proposes to leave the storage cost allocation as originally proposed and approved (75% to demand/25% to commodity). The Department has stated that it sees consistency and fairness in the proposal to split the allocation of costs between those associated with annual storage capacity and reservation (MDQ), and that it would not object to such an allocation. However, staff notes that in the Department's analysis of the impact[6] of such an allocation, the Department only looked at the allocation of the FDD Storage costs since BP does not separate the pricing of its storage based on annual capacity and MDQ (reservation).[7]

If the Commission is interested in pursuing a change from CenterPoint's current storage allocation methodology of 75% demand/25% commodity to an allocation, as outlined by staff, based on annual capacity and MDQ, the Commission could require CenterPoint to allocate the cost of the BP contract between annual capacity costs (100% to commodity) and reservation (MDQ) costs (75% demand and 25% commodity).

In order to allocate the cost of the BP contract between annual capacity costs and reservation MDQ costs, the Commission could:

- Require CenterPoint to request such a breakdown in pricing from BP;[8] or
- Treat 50% of the price of the BP contract as associated with annual capacity and 50% as associated with MDQ similar to the FDD pricing;[9] or
- Treat all of the BP contract costs as applicable to the annual capacity and allocate it 100% to commodity; or
- Treat all of the price of the BP contract as applicable to the MDQ and continue to allocate it 75% to demand, 25% to commodity.

Because the breakdown between annual capacity cost and MDQ cost is provided for the NNG FDD contract, but not for the BP contract, staff has set up decision alternatives for the two contracts separately.

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[6] See the Department's December 16, 2015 Response to Reply Comments—Trade Secret Version of Attachment 1.
[7] Staff further believes that the BP contract is a bundled service that provides CenterPoint with storage services, along with transportation services to deliver to CenterPoint.
[8] BP is a marketer selling its services to CenterPoint and may not wish to provide this information in a public forum because of competitive reasons.
[9] Note that BP provides a bundled service which may include transportation services.

PUC staff believes the cost associated with the MDQ is similar to the cost of swing supplies that have a reservation component. However, PUC staff also believes the cost associated with the annual capacity of gas to be cycled through storage is more like a commodity cost since this is associated with the quantity of gas to flow through storage.

Decision Alternatives

Department Recommendation

1. Approve CenterPoint's proposed level of demand entitlements as amended by its October 30, 2015 and November 30, 2015 Supplemental Filings effective November 1, 2015; and

2. Approve the design-day level proposed by CenterPoint.

Additional Decision Alternatives

Northern Natural Gas FDD Storage Costs

3. Require CenterPoint to allocate:
   a. all of the Northern Natural Gas FDD fixed storage costs associated with the annual capacity (amount) of gas that can be stored to commodity costs; and
   b. all of the Northern Natural Gas FDD fixed storage costs associated with the maximum daily quantity that can be withdrawn (peak day deliverability) like supplier reservation fees, with 75% allocated to demand costs (assigned to firm customers only) and 25% allocated to commodity costs (assigned to firm and interruptible customers).

BP Storage Contract

4. Require CenterPoint to request a breakdown in pricing from BP as to the amount associated with annual capacity and the amount associated with MDQ and require CenterPoint to allocate:

   a. all of the resulting BP fixed storage costs associated with the annual capacity (amount) of gas to commodity costs; and
   b. all of the resulting BP fixed storage costs associated with the maximum daily quantity (MDQ) that can be withdrawn (peak day deliverability) like supplier reservation fees, with 75% to demand costs (assigned to firm customers only) and 25% to commodity costs (assigned to firm and interruptible customers).

   OR

5. Require CenterPoint to:

   a. Treat 50% of the BP fixed storage costs as associated with annual capacity and to allocate that amount to commodity costs; and
   b. Treat 50% of the BP fixed storage costs as associated with MDQ and allocate that amount 75% to demand costs and 25% to commodity costs.

   OR

6. Require CenterPoint to treat all of the fixed storage cost of the BP contract as MDQ reservation costs and continue to allocate the storage costs 75% to demand and 25% to commodity.

   OR

7. Require CenterPoint to treat all of the fixed storage cost of the BP contract as annual capacity and allocate the costs 100% to commodity.

   OR

8. Do not require CenterPoint to allocate the BP storage contract costs between annual capacity and MDQ and allow CenterPoint to continue allocating the BP fixed costs 75% to demand and 25% to commodity.