

April 30, 2024

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-24-150

Dear Mr. Seuffert:

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

Proposal of Commodity smoother in AAA/True-up CenterPoint Energy Resources Corp

The Petition was filed on behalf of CenterPoint on April 3, 2024.

The Department recommends that the Minnesota Public Utilities Commission (Commission) **deny** CenterPoint Energy's proposed Commodity Smoother. The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ DR. SYDNIE LIEB
Assistant Commissioner of Regulatory Analysis

SL/ad
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G008/M-24-150

I. INTRODUCTION

On April 3, 2024, CenterPoint Energy Resources Corp d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company) filed a petition with the Minnesota Public Utilities Commission (Commission) to implement recovery of commodity costs in the monthly Purchase Gas Adjustment (PGA). CenterPoint originally proposed the Commodity Smoother in its August 30, 2023, AAA report.¹ The Company indicated that the proposed Commodity Smoother would be similar to the demand smoother currently being used by the CenterPoint, and that the Commodity Smoother would function as a small true up using a 2-month lag on over/under collections. Currently any over/under recoveries of commodity costs are recovered after a yearly true up is implemented for the PGA, which results in over/under recoveries taking a year or more to be resolved. CenterPoint provided an exhibit indicating that if the proposed Commodity Smoother had been implemented for July 2022 through June 2023 that the under-collection CenterPoint experienced during that period would have been reduced from \$14,046,969 to \$8,738,921.

II. DEPARTMENT EVALUATION

The Department reviewed CenterPoint's proposal and the Commission's most recent action on a similar topic in Docket No. E999/CI-03-802, where the Commission changed the Fuel Clause Adjustment (FCA) requirements and recovery mechanisms. In its March 8, 2017 comments the Department discussed reasons why it recommended removing the FCA monthly adjustments, specifically noting that the lag of the adjustment diluted price signals, that the monthly price changes resulted in rates that were harder for customers to predict or understand, and that the monthly changes made it so that utilities would change rates prior to justifying whether it was reasonable to do so. Further the Department stated that the regulatory lag gives the utilities an incentive to minimize costs.²

The goals of a PGA should be to:

- give customers clear and timely information about gas costs to allow them to take action and respond to expected increase in energy costs;
- give utilities an opportunity to recover reasonable costs;
- hold utilities accountable for the gas costs they charge;
- where feasible provide more certainty about energy prices; and
- ensure utilities have appropriate incentives to properly maintain their facilities while minimizing other costs.

¹ See CenterPoint's *Annual Automatic Adjustment Report* filed 9/1/2023 Docket Nos. G999/AA-23-381 edockets# [20239-198714-01](#) page 27

² See Department's *Comments* filed 3/8/2017 in Docket No. E999/CI-03-802 edockets# [20173-129742-01](#)

Implementation of CenterPoint's proposed Commodity Smoother conflicts with some of these goals. Specifically, quickly reimbursing costs unreasonably favors cost recovery and deters utilities from minimizing costs. Updating the fuel cost immediately after it's incurred removes the customers' ability to make decisions based on price signals. CenterPoint already has a reasonable opportunity to recover costs, but allowing faster recovery of higher costs removes incentives for CenterPoint to minimize costs. Under the yearly true-up method currently used, CenterPoint must justify its costs before recovery, placing more accountability on the utility. Even a small pause between costs being incurred and recovery can incentivize utilities to consider ways to minimize costs. CenterPoint's proposal also increases the regulatory burden in the case of price spikes for natural gas. The Department notes that CenterPoint is required to notify the Commission in the case of price spikes for natural gas.³ The proposed commodity smoother would require more rapid action by the Department and the Commission to ensure that price spikes are not passed on to consumers before being properly investigated as compared to the current true-up method. This shortened time before recovery also increases the likelihood that costs may be passed on to customers before the Commission has a chance to act on costs it may find to be imprudently incurred. Further, increasing the complexity of the PGA makes it harder to determine the reasonableness of any individual change and the relationship between different costs and rates.

It can be difficult for customers to react to price signals in the PGA, but adding additional monthly changes, compared to the current yearly true up, will exacerbate the issue. Under this proposal, the \$5,308,048 that the Company estimates would have been recovered from July 2022 through June 2023, would likely not influence monthly customer gas usage decisions unless that customer was actively checking price updates each month. Under the current system these same amounts would be added to the PGA once per year, requiring far less effort from customers to become aware of the change and react to it. The Department believes that this proposal would significantly limit the price signal for costs recovered by the commodity smoother, which in the case of the estimated July 2022 through June 2023 would result in 37.8%⁴ of the commodity costs likely causing no changes in customer behavior.

The Commission ultimately approved the Department's recommendation to halt the monthly fuel clause adjustment for electric utilities in its December 19, 2017, *Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements*.⁵ The Commission maintained this decision following its implementation, only modifying the mechanism to allow an adjustment to be made for costs that vary by plus or minus 5 percent of all FCA costs, in a June 12, 2019 Order.⁶ As the same general principles apply here, the Department does not think that creating an additional true-up mechanism is prudent in this case. While the Commodity Smoother would speed up the

³ Specifically in cases where the daily spot market price for gas exceeds five times the average price of gas in the utility's filed PGA for the current month the utility must notify the Commission of the change.

⁴ $\$5,308,048 / \$14,046,969 = .377878$ or 37.7878%

⁵ See the Commission's *Order Approving New Annual Fuel Clause Adjustment Requirements and Setting Filing Requirements* Docket No. E999/CI-03-802 edockets# [201712-138275-01](#)

⁶ See the Commission's *Order Approving Additional Details of New Fuel Clause Adjustment Process* Docket No. E999/CI-03-802 edockets# [20196-153514-01](#)

recovery/refund of over/under recoveries, it reduces the incentive for CenterPoint to minimize costs, dilutes price signals, removes customers' ability to react to price signals, and makes it more difficult to challenge the recovery of certain costs if they were imprudently recovered from customers. For these reasons the Department recommends that the Commission reject CenterPoint's proposed Commodity Smoother.

III. RECOMMENDATIONS

The Department recommends that the Commission deny CenterPoint's proposed Commodity Smoother.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G008/M-24-150

Dated this **30th** day of **April 2024**

/s/Sharon Ferguson

[illegible]

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