


## Staff Briefing Papers

<b>Meeting Date</b>	December 14, 2023	<b>Agenda Item 2*</b>	
<b>Company</b>	CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas		
<b>Docket No.</b>	<b>G-008/MR-23-174</b>		
	<b>In the Matter of CenterPoint Energy Resources Corporation’s Filing to Establish a New Base Gas Cost Filing (PGA Zero-Out) for Interim Rates in CenterPoint Energy’s General Rate Filing, Docket No. G-008/GR-23-173</b>		
<b>Issues</b>	Should the Commission approve CenterPoint Energy’s proposed new base cost of gas?		
<b>Staff</b>	Godwin Ubani	godwin.ubani@state.mn.us	651-201-2191

 <b>Relevant Documents</b>	<b>Date</b>
CenterPoint Energy – Initial Filing	November 1, 2023
Department of Commerce – Comments	November 20, 2023
CenterPoint Energy – Reply Comments	November 21, 2023

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email [consumer.puc@state.mn.us](mailto:consumer.puc@state.mn.us) for assistance.

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

✓ Relevant Documents

Date

## I. INTRODUCTION

CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy, CenterPoint, CPE, or the Company) filed its petition and requested approval to establish a new base cost of gas and reset the purchased gas adjustment to zero, to coincide with the implementation of interim rates in its general rate case filing, Docket No. G-008/GR-23-173. CPE's rate case is a multi-year rate plan with 2024 and 2025 calendar test years. This miscellaneous filing matches CenterPoint Energy's proposed interim retail billing rates with the gas costs used to calculate CPE's proposed interim rate revenue. This filing eliminates the purchased gas adjustment (PGA), which represents the difference between CenterPoint Energy's current base costs approved in Docket No. G-008/GR-21-435, and the new base gas costs used in CenterPoint Energy's current general rate filing in Docket No. G-008/GR-23-173.

CPE request increases customers' bills on an interim basis by 14.0% on the Monthly Basic Charge and the Delivery Charge per therm, effectively by January 1, 2024. Any sales tax and franchise fees will be calculated on the increased bill. If the total amount of the rate increase approved at the end of the rate case (Docket G-008/GR23-173) is lower than the total amount of the interim rates collected, the Company will refund the difference with interest.<sup>1</sup>

## II. BACKGROUND

On November 1, 2023, CenterPoint Energy filed a general rate case under Docket No. G-008/GR-23-173. This time CPE filed on the same day, a new base cost of gas under Docket G-008/MR-23-174 to coincide with the implementation of interim rates in the general rate case.

On November 20, 2023, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission approve CPE's Base Cost of Gas petition with certain conditions.

CenterPoint Energy on November 21, 2023 filed reply comments accepting the Department's recommendations.

### 1. Relevant Rules

Minn. Rules Pt. 7829.1300, Miscellaneous Tariff and Price List Filings  
Minn. Rules Pt. 7825.2700, Subp. 2, New Base Gas Cost  
Minn. Rules Pt. 7825.3200 (B), Miscellaneous Rate Changes

---

<sup>1</sup> See Docket No: G-008/GR-21-436, Interim Tariffs, Section V, Revised at p. 1.

### III. DISCUSSION

#### 1. CenterPoint Energy – Initial Filing

CenterPoint proposed recovery of test year demand gas costs of \$167,469,152<sup>2</sup> and commodity gas costs of \$640,903,000,<sup>3</sup> resulting in total test year cost of gas of \$808,372,152.

#### 2. Department of Commerce – Comments

##### a. Demand Cost of Gas

The Department reviewed and analyzed CPE's Petition for consistency with calculations in the rate case and those in the base cost of gas and observed that the information is generally consistent between both. The Department observed that CPE calculated its demand cost of gas based on the demand entitlement units and costs<sup>4</sup> that are estimated to be charged beginning in the Company's November 2023 Purchased Gas Adjustment (PGA) filing.<sup>5</sup> The Department also noted that demand costs are marginally different between the estimated November 2023 PGA and the rate case and base cost of gas filings.

The Department also noted that demand costs are based on the interstate pipeline rates of Northern Natural Gas (Northern or NNG), Viking Gas Transmission (VGT), and Trailblazer Pipeline Company LLC (TPC), including any existing negotiated agreements that CPE might have with the pipelines.

Further, the Department noted that CenterPoint's witness Seth S. DeMerritt in Direct Testimony in Docket 23-173, described the derivation of commodity and demand costs of gas and how gas costs impact the level of cash working capital and storage inventory costs included the Company's general rate case.<sup>6</sup> In fact, the Department pointed out that Commission Staff in its August 25, 2017 Briefing Papers on CPE's base cost of gas filing in Docket No. G-008/MR-17-591, stated the following:

Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the "driver" for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, proposed test year bad debt expense is calculated as 0.96% of firm revenue; therefore, a 10% fluctuation (\$43.645 million) in commodity gas costs would impact bad debt expense by \$419,000.

---

<sup>2</sup> See Attachment 2, Docket G-008/MR-23-174, see also Exhibit-SSD-D, Schedule16, pp. 8-9 of 10.

<sup>3</sup> Id.

<sup>4</sup> CenterPoint calculated its demand cost of gas based on the demand entitlement units and costs, filed on May 31, 2023 in Docket No. G-008/M-23-221 (Docket 23-221).

<sup>5</sup> Department Comments, p. 2.

<sup>6</sup> Docket No. G-008/GR-23-173., see also Department's Comments, p.2.

In view of the above discussion, the Department recommended CPE provide updated cost of gas information in this proceeding (in the past companies have been required to update base cost of gas information reflecting changes in commodity and demand costs)<sup>7</sup> and in the related rate case. And such update should be filed in both the instant docket and in the general rate case. Overall, the Department concluded that its review of demand costs did not reveal any inconsistencies between the sales forecast reported in the rate case filing and the one presented in the base cost of gas Petition.

### **b. Commodity Costs**

CPE estimated its commodity costs based on forecasted Henry Hub wellhead prices, basis point differentials for delivery of natural gas to Ventura and estimates of lost and unaccounted for gas. The Department noted that CPE used this same method (i.e., used historical and forecasted Ventura basis point differentials and included them in their calculation through the end of the test year) in three previous rate cases and related base cost of gas filings.<sup>8</sup> Thus, the Department, upon comparing these estimated commodity cost rates to current NYMEX market expectations, held that, currently, the rate estimates seem appropriate.

Also, the Department stated that in addition to estimating commodity cost for its customers, the Company determined the monthly estimated Weighted Average Cost of Gas (WACOG).<sup>9</sup> In this vein, CenterPoint Energy calculated its total gas cost recovery amount by multiplying monthly test-year sales amounts of 137,350,138 by the monthly projected WACOG price of \$4.6662<sup>10</sup> per dekatherm for total commodity costs of \$640,903,216.<sup>11</sup> The Department noted that its analysis generally indicated consistency in the information between the rate case and the base cost of gas filing with a minor rounding difference.<sup>12</sup>

### **c. Total Gas Costs**

The Department noted that there exists a small discrepancy of \$3 that results between the test year total cost of gas of \$808,372,152<sup>13</sup> (demand cost of \$167,469,152 plus commodity cost of

---

<sup>7</sup> Department's Comments p.2.; also see for example, the Commission's December 5, 2017 Order Setting New Base Cost of Gas for Interim Rate Period in Docket No. G-011/MR-17-564, September 29, 2017 Order Setting New Base Cost of Gas in Docket No. G-008/MR-17-591, and December 18, 2019 Order Setting New Base Cost of Gas in Docket No. G-008/MR-19-525, respectively.

<sup>8</sup> Department's Comments, p. 3., and see previous rate cases petitions and related base cost of gas filings in Docket Nos. G-008/GR-17-285 and G-008/MR-17-591; and G-008/GR19-524 and G-008/MR-19-525; and G-008/GR-21-435 and G-008/MR-21-436).

<sup>9</sup> Id., also see Company's witness Seth S DeMerritt (Exhibit \_\_\_ (SSD-D), workpapers that shows the derivation of the commodity cost of gas. This workpaper is available in Docket No. G-008/GR-23-173.

<sup>10</sup> Id., see also Exhibit-SSD-D, Schedule 16, p. 8 of 10, Docket no. G-008/GR-23-173.

<sup>11</sup> Id.

<sup>12</sup> Department's Comments, p. 3.

<sup>13</sup> Id., at p. 4

gas of \$640,903,000) and rate case total gas cost of \$808,372,149.<sup>14</sup> However, the Department indicated the \$3 difference is acceptable since it was due to rounding.

#### d. Tariffs

CenterPoint in its Petition included Exhibit D as its proposed updated interim tariff sheets in both redlined and clean versions. The Department reviewed these and concluded that the proposed changes correctly update the base cost of gas values in accordance with the calculations contained in Exhibit E of the Petition and held both versions of the interim tariff sheets as acceptable.

#### e. Department's Recommendations

The Department recommended that the Commission approve CenterPoint's base cost of gas filing as modified by requiring CPE:

- Provide updated cost of gas information in this proceeding and in its companion general rate case;
- work with Commission and Department Staff to determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to CenterPoint's base cost of gas and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case Docket 23-173.

### 3. CenterPoint Energy – Reply Comments

CPE accepted all the Department's recommendations.

### 4. Staff Analysis

Staff points out that Commodity gas costs, although recovered dollar for dollar, is a component of total revenue and total revenue is either a component or the "driver" for various test year estimates, such as bad debt expense, late payment fees and storage costs. For instance, a ten percent (10%) fluctuation to the proposed \$808,372,152 base cost of gas, would impact bad debt expense by approximately \$525,442.<sup>15</sup> Though CenterPoint calculated its 2024 WACOG to be \$4.6662; however, Staff's review of NYMEX daily prices revealed that, since February 3, 2023, natural gas prices have been below \$3.00 every day, except from October 6-13 and October 27-November 3, 2023, where for only 11 days the price was above \$3.00.<sup>16</sup> If these trends continue into the test year, it is likely that the actual 2024 WACOG will be lower than the

---

<sup>14</sup> Department's Comments, p. 4.

<sup>15</sup>  $\$808,372,152 \times 10\% \times 0.65\% = \$525,441.90$ .

<sup>16</sup> Through November 17, 2023. Source: <https://www.eia.gov/dnav/ng/hist/rngwhhdd.htm>.

forecasted \$4.6662.

Since commodity gas costs' impact various test year estimates, Staff agrees with the Department's recommendation that the Commission may want to require CenterPoint Energy to provide updated cost of gas information throughout this proceeding as a check on the reasonableness of the amount forecasted for the test-year. Also, to ensure that the record is complete, if the Commission does order these filings, CenterPoint Energy should be instructed to make the filings under both this docket and the general rate case docket.

Additionally, if the Commission changes the Company's interim rate proposal, then require CenterPoint to provide updated tariff sheet reflecting the Commission's interim rate decision(s) in this proceeding.

#### IV. DECISION OPTIONS

##### **Base Cost of Gas (BCOG)**

1. Approve CenterPoint Energy's Base Cost of Gas as filed. (CPE, DOC)
2. Do not approve CenterPoint Energy's Base Cost of Gas.

##### **Updated Commodity Costs of Gas**

3. Require CenterPoint Energy to file updated information on the commodity cost of gas both in this proceeding and in the general rate case in Docket No. G-008/GR-23-173. Require CenterPoint Energy to work with the Department and Commission Staff to determine the appropriate timing for providing this updated information and whether this updated information should be applied to CenterPoint Energy's base cost of gas and reflected in the accompanying general rate case. (DOC)
4. Do not require CenterPoint Energy to provide updated information on the commodity cost of gas.

##### **Updated Tariff Sheets**

5. If the Commission changes the Company's interim rate proposal, require CenterPoint to file updated tariff sheets that reflect the Commission's interim rate decision(s) in this proceeding. (Staff)

