

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: October 30, 2014.....**Agenda Item #11

Company: CenterPoint Energy (CPE, the Company)

Docket No. **G-008/M-14-368**

In the Matter of Center Point Energy's 2013 Demand Side Management
Financial Incentives and Annual Filing to Update the CIP Rider

- Issue(s):
1. Should the Commission approve an incentive of \$10,890,131 for CPE's 2013 CIP achievements?
 2. Should the Commission approve CPE's 2013 CIP tracker account?
 3. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?
 4. Should the Commission eliminate the carrying charge or otherwise modify its application to CPE's tracker balance for the CIP rider effective with the date of the Commission's Order?
 5. Should the Commission approve CPE's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?

Staff: Marc Fournier651-201-2214

Relevant Documents

Initial Filing CenterPoint May 1, 2014

Comments of the Department of Commerce,
Division of Energy Resources (DOC) July 16, 2014

Reply Comments CenterPoint..... August 1, 2014

Reply Comments of the Department of Commerce,
Division of Energy Resources August 29, 2014

Commission Order Approving Financial Incentive,

Setting Conservation Cost Recovery Adjustment,
Reducing Carrying Charges, and Varying Rules

Docket No. E-017/M-14-201 September 26, 2014

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.

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I. Statement of the Issue(s)

1. Should the Commission approve an incentive of \$10,890,131 for CPE's 2013 CIP achievements?
2. Should the Commission approve CPE's 2013 CIP tracker account?
3. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?
4. Should the Commission eliminate the carrying charge or otherwise modify its application to CPE's tracker balance for the CIP rider effective with the date of the Commission's Order?
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Minn. Stat. § 216B.16, subd. 6c.

Incentive plan for energy conservation improvement. (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.

(b) In approving incentive plans, the commission shall consider:

(1) whether the plan is likely to increase utility investment in cost-effective energy conservation;

(2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;

(3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and

(4) whether the plan is in conflict with other provisions of this chapter.

(c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

II. Background

On May 1, 2014, CenterPoint Energy (CPE or the Company) filed a petition requesting approval of its 2013 natural gas CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2013 Performance of \$10,890,131, and a proposed 2014/2015 Gas Conservation Cost Recovery Adjustment (CCRA). The Petition includes a report of proposed recoveries and expenditures in CPE's gas CIP tracker account during 2013, a proposed change in the currently approved gas CCRA, and a proposed incentive for its 2013 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on July 16, 2014.

On August 1, 2014, reply comments were filed by CPE Energy. The DOC filed reply comments on August 29, 2014.

Below are the DSM financial incentives 2009 to 2013 for the Minnesota gas utilities filing for DSM incentives:

DSM Financial Incentives 2009-2013

	2009	2010	2011	2012	2013
Xcel	\$965,307	\$2,264,511	\$2,833,206	\$2,682,879	\$5,416,936
Center Point Energy	\$1,394,200	\$3,933,921	\$4,590,392	\$3,207,411	\$10,890,131
Great Plains	\$0	\$18,915	\$37,707	\$114,763	\$24,137
Interstate Power	\$86,463	\$85,716	\$15,349	\$20,097	\$37,207
Minnesota Energy Resources Corp.	\$582,288	\$2,292,375	\$2,587,948	\$2,729,531	\$2,492,730

III. Parties' Positions

CPE: CPE requests that the Commission approve the Company's proposed 2013 DSM financial incentive in the amount of \$10,890,131 and approve CPE's 2013 CIP Tracker account as summarized by the DOC in their July 16th comments. In addition, the Company requests that the Commission approve the CCRA rate of \$0.0884 per therm.

With respect to Carrying costs, these can be both due from and payable to customers – carrying charges are due from customers when the Company has not fully recovered the CIP costs incurred on a timely basis and carrying charges are payable to customers when the company has recovered from customers before the CIP costs are incurred. Carrying charges are applied to the Company's investments in conservation at a rate in keeping with the Company's allowed rate of return on rate base. The use of the allowed rate of return is appropriate because CIP expenses:

1. are prudently incurred costs as established under Minnesota law and policy;
2. have been and will continue to be ongoing business costs; and
3. are an ongoing cash working capital item, not unlike any other working capital item included in rate base.

The Company strongly opposes the removal of carrying charges from the CIP Tracker account for over or under recovered balances associated with CIP program expenses as the Company identified in the previous paragraph. CIP program expenses represent an investment in conservation. That investment diverts cash working capital from other potential investments and, therefore, should have the same allowed rate return as those other investment options. Timely cost recovery and appropriate carrying charges are important for promoting investment in conservation and, ultimately, achieving Minnesota's energy efficiency goals.

The Company also noted that prior to CenterPoint Energy's 2008 rate case; the Company's CIP Tracker was included in rate base in order to recover CIP costs. When included in rate base, the Company's CIP Tracker balance received the allowed rate of return. The Company believes including the CIP Tracker balance in rate base is appropriate; the Company also views the DOC Staff's (then) recommendation to apply carrying costs within the CIP Tracker account as an acceptable alternative since both options include an allowed rate of return to reflect the time value of money to both the utility and customers. Following resolution of the Company's 2008 rate case, the CIP Tracker account was removed from base rates and the Company applied carrying charges to the CIP Tracker account.

The Company supports the current application of carrying charges in the Company's CIP Tracker account. However, if the Commission adopts the current DER Staff recommendation to discontinue carrying charges, the Company proposes that implementation be delayed until the start of the test year in the next CenterPoint Energy Minnesota gas rate case so that the CIP Tracker balance can be included in rate base and legitimate utility costs associated with the timely recovery of CIP expenses are not disallowed.

Finally, if the Commission allows the continued use of carrying charges in the CIP Tracker, the Company agrees that the carrying charges can be removed from the DSM financial incentive.¹ Since the DSM financial incentive is not an out-of-pocket cost incurred by the Company in

¹ The DOC has stated in comments that in the event that the Commission decides not to discontinue carrying charges, then the Department recommends that the Commission disallow carrying charges on CenterPoint's financial incentive.

administering its CIP programs, the Company does not oppose the recommendation that carrying charges not be applied to the financial incentive on a going-forward basis. The Company notes that there may be several methodological options for removing carrying charges from the DSM financial incentive. If the Commission adopts the DER Staff's recommendation to remove carrying charges from the DSM financial incentive, the Company would work with DER Staff to find an acceptable method to do so.

DOC: The DOC recommends that the Commission:

1. approve CenterPoint's proposed 2013 DSM financial incentive of \$10,890,131 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's *Order* in the present docket;
2. approve CenterPoint's 2013 CIP tracker account with an ending balance of \$8,501,064 balance. A summary of the account is provided in Table 1, page 5 of the DOC's July 16, 2014 Comments;
3. discontinue approving carrying charges for under or over recovered balances in CenterPoint's CIP tracker account beginning in the month after the Commission issues its *Order* in this docket;
4. in the event that the Commission continues to allow the application of carrying charges to the over and under recovery of CIP tracker accounts, disallow application of the carrying charge to the Company's financial incentive;
5. require CenterPoint to provide revised CCRA calculations reflecting the Commission's *Order* in this matter. If the Commission doesn't eliminate carrying charges, the DOC recommends that the Commission approve the Company's proposed CCRA of \$0.00884; and
6. approve the following bill message:

The MPUC has approved a Conservation Cost Recovery Adjustment (CCRA) factor of \$[insert factor] per therm. This charge is used to fund energy conservation activities and has been added to your delivery charge. For more information please call 1-800-245-2377 or visit our website at www.centerpointenergy.com.

IV. Staff Discussion

Staff agrees with the DOC that the 2013 tracker account was calculated correctly. As such, the Commission should approve CPE's 2013 year end CIP Tracker account balance of \$8,501,064 as reported by the DOC.

With respect to the 2013 CIP incentive amount, Staff agrees with the DOC that the amount of \$10,890,131 should be approved by the Commission. With respect to the carrying charge applied to the CIP tracker, Staff agrees with the DOC that it should be eliminated for two reasons. First, Staff believes that the current carrying cost structure provides a perverse incentive for any Company to maintain the CCRA at relatively low level and carry a significant positive tracker account balance. This increases the cost of the CIP over the long run.²

Second, Staff believes that the goal should be to carry a zero balance as much as possible in the tracker account. By having a carrying charge of any size, it will reduce the likelihood of such an outcome.³ Again, the goal should be to keep CIP costs at a minimum. In this context, having an incentive structure which facilitates this outcome, generally will facilitate the achievement of the desired outcome.

With this in mind, Staff believes that the Commission's September 26, 2014 Order Approving Financial Incentives, Setting Conservation Cost Recovery Adjustment, Reducing Carrying Charges, And Varying Rules in Docket No. E-017/M-14-201 is quite instructive and useful for this matter. In that Order, the Commission modified the carrying charge on the CIP tracker-account balance to the short-term cost of debt set in the Company's last rate case. In its Order at page 6, the Commission determined the following:

The Commission concurs with the Chamber and the Department that it is no longer appropriate to grant the Company carrying charges on unrecovered CIP costs at its authorized rate of return. The Commission will, however, grant carrying charges at the Company's short-term cost of debt, as explained below.

The Commission defended its determination that using authorized rate of return as excessive and may not be appropriate in the rate rider/tracker account context at page 7:

Here, the Commission concurs with the Chamber and the Department that granting carrying charges at Otter Tail's authorized rate of return would be excessive. While the CIP financial incentives making up the bulk of the CIP tracker account serve an important public-policy purpose, they are not the kind of costs—out of pocket costs—for which rate-of-return treatment can be most readily justified.

Additionally, the Commission reasoned that the generous carrying charges were appropriate at the beginning of the DSM financial incentives as a way to facilitate the success of the program. The Commission Order provided the following reasoning at page 7:

² CPE's year-end tracker balance has varied over the last five years. In 2010, it increased from 2009. It decreased in 2011 from 2010. It increased in 2012 from 2011, and decreased in 2013.

³ Staff notes that a lower carrying charge will result in a reduced incentive for maintaining a significant tracker balance.

Further, the factual context that led to setting carrying charges at the overall rate of return no longer applies. As the Department pointed out, in 1992—and for years thereafter—demand-side management financial incentives were small, the financial-incentive program was new, and it was important to use whatever tools were at hand to encourage its success. The incentives are now sizeable, the program is well established, and Otter Tail itself stated at hearing that reducing or eliminating carrying charges would not affect its conservation commitment or efforts, just its approach to rate amelioration.

Finally, the Commission reasoned that there is no perfect mapping between the cost recovery period and interest rates. However, the short-term cost of debt is the closest match. The Commission's Order stated the following at page 7:

While there is no exact match between this additional twelve-month recovery period and a standard interest rate, the Commission concurs with the Department and the Chamber that the authorized cost of short-term debt is the closest match contained in the record. The twelve-month term typical of short-term debt corresponds to the twelve-month period CIP costs are typically carried in the tracker account. And, while the additional twelve months of recovery necessitated by the moderated CCRA level is anomalous, the short-term debt rate is still more consistent with the public interest than the overall rate of return, given the nature of these costs—cash financial incentives—and the relatively short term—two years—within which they will be recovered.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely but reasonable manner. In the event the Commission eliminates or reduces the carrying charges, it would be reasonable to bring the tracker to zero as quickly as possible. At the same time, the Commission needs to be mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that it would be reasonable to set the CCRA rate at a level of \$0.00884 per therm. Staff believes that this rate is appropriate because it is projected to bring about an approximate decrease in the Tracker Balance of \$2.6 million over 2015.⁴ This rate strikes an appropriate balance between moving the tracker balance to zero and customer impact. Next year, the Company should evaluate the progress that has been made, and propose a rate which would continue the progress to bring the tracker balance to zero.

V. Commission Options

- A. Should the Commission approve an incentive of \$10,890,131 for CPE's 2013 CIP achievements?
 - 1. Approve CPE's 2013 financial incentive for CIP achievements.

⁴ Please see page 3 of CPE's August 1, 2014 reply comments for a side-by-side comparison of the estimated tracker balances with a 2015 CCRA rate of \$0.002626/therm and \$0.00884/therm.

2. Do not approve CPE's 2013 financial incentive for CIP achievements.
- B. Should the Commission approve CPE's 2013 CIP tracker account?
1. Approve CPE's 2013 CIP tracker account as indicated at page five of the DOC's July 16, 2014 comments.
 2. Do not approve CPE's 2013 CIP tracker account.
- C. Should the Commission eliminate the carrying charge or otherwise modify its application to CPE's tracker balance for the CIP rider effective with the date of the Commission's Order?
1. Modify the carrying charge to reflect the Company's Short-term cost of debt established in the Company's last rate case, Docket No. G-008/GR-13-316. The modification shall be effective as of the date of the Commission's Order in this docket.
 2. Do not eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.
 3. Eliminate the carrying charges to the tracker balance for the CIP rider effective with the date of the Commission's Order.
 4. Modify the application of the carrying charge to exclude the Company's financial incentive when determining the amount of carrying charges allowed for recovery.
 5. Take other action the Commission deems appropriate.
- D. At what level should the Commission set the conservation cost recovery adjustment (CCRA) for 2014/2015?
1. Set the CCRA at \$0.00884/therm as originally recommended by the Company and recommended by the DOC (if the Commission does not eliminate carrying charges).
 2. Require CenterPoint to provide revised CCRA calculations reflecting the Commission's Order in this matter as recommended by the DOC.
 3. Set the CCRA at \$0.002626/therm as originally recommended by the DOC.
 4. Set the CCRA at \$0.01137/therm projected by CPE to zero out the Tracker Balance by January 1, 2016.

5. Leave the CCRA at its current level of \$0.00659/therm.
- C. Should the Commission approve CPE's proposed bill message for publication in the billing month immediately following the date of the Order in this docket with the appropriate modifications to reflect an accurate effective date and gas CIP Adjustment Factor as determined by the Commission?
1. Approve Great Plain's proposed bill message with the modifications that the effective date and gas CCRA listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate.
 2. Do not approve CPE's proposed bill message.
 3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.⁵

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1, and E1.

⁵ If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.