


## Staff Briefing Papers

Meeting Date	October 7, 2021	Agenda Item 4**
Company	<b>CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota</b>	
Docket No.	<b>G-008/M-20-565</b>	
	<b>In the Matter of a Petition by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Approval to Change its Level of Demand Units.</b>	
Issues	Should the Commission reconsider its July 29, 2021 Order Accepting Demand Entitlement Level and Disallowing Recovery of Certain Costs?	
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 Relevant Documents	Date
Order Accepting Demand Entitlement Level and Disallowing Recovery of Certain Costs	July 29, 2021
CenterPoint Petition for Rehearing and Reconsideration	August 18, 2021
Department of Commerce (DER) – Response to Reconsideration	September 13, 2021
CenterPoint Response to Staff Information Request	September 24, 2021

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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 Issues

Should the Commission reconsider its July 29, 2021 Order Accepting Demand Entitlement Level and Disallowing Recovery of Certain Costs?

*Note: CenterPoint has included an alternative proposal in its request for reconsideration.*

## II. Background

On July 1, 2020, CenterPoint Energy Resources Corp. (CenterPoint, CenterPoint Energy or the Company) filed an initial petition with the Minnesota Public Utilities Commission (Commission) for approval to change its level of Demand Units.

On January 8, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) recommended that the Commission accept CenterPoint Energy's proposed level of demand and design-day level. Additionally, the Department recommended that the Company file additional information on its proposal to recover a Contribution in Aid of Construction (CIAC) cost of \$49.8 million to Northern Natural Gas (NNG).

On February 16, 2021, CenterPoint Energy submitted Reply Comments supporting its cost recovery proposal.

On March 8, 2021, the Department, submitted Supplemental Comments recommending disallowance of \$2,273,638 in CIAC costs.

On March 12, 2021, CenterPoint Energy submitted Supplemental Reply Comments in disagreement with the Department's recommendation.

On July 29, 2021, the Commission issued an order in which it approved CenterPoint's proposed level of demand entitlement and design-day level. The Order disallowed recovery of an amount equal to \$2,273,638 of the Northern Natural Gas CIAC.

On August 18, 2021, CenterPoint Energy filed its request for rehearing and reconsideration of the portion of the Commission's July 29, 2021 Order disallowing recovery of \$2,273,638 CIAC-related costs. The Company included an alternative proposal that would "unwind" the CIAC transaction by refunding the CIAC amounts already collected from customers and having Northern Natural finance the payments, to be collected over 14 years.

On September 13, 2021, the Department submitted a response to CenterPoint Energy's petition for reconsideration, stating that the financial effects from the disallowance in the Commission's order would be similar to that of CenterPoint Energy's alternative proposal.

### III. Petition for Reconsideration

On August 18, 2021, CenterPoint Energy filed a petition for Rehearing and Reconsideration of the Commission's July 29, 2021 Order Accepting Demand Entitlement Level and Disallowing Recovery of Certain Costs. According to the Company, new facts related to the contract between NNG and the Company for the additional demand units warrants the Commission reconsidering and revising the Order.

CenterPoint Energy stated that since the Commission's June 24, 2021 hearing in this matter, it has worked with NNG to develop an option to "unwind" its current agreement with NNG and put in place the agreement for additional demand units determined by the Commission to have been the better option for customers.

The Company additionally stated that the Commission, in its Order, agreed with the Department's analysis, and determined that CenterPoint Energy's design day and proposed change in the level of its demand entitlement on the NNG system were reasonable.<sup>1</sup> Moreover, according to Company, the Commission acknowledged that the increased level of demand entitlement necessitated new capacity on the NNG system, requiring new construction.<sup>2</sup>

Rather than paying for the construction costs over fourteen years at NNG's financing rate, CenterPoint originally agreed to prepay, through a CIAC to NNG, for the construction. The Company also proposed to recover the CIAC over ten months through the purchased gas adjustment charge on customers' bills.<sup>3</sup>

CenterPoint observed that the Commission accepted the Department's argument that the Company had not selected the lowest cost option for ratepayers on a net present value (NPV) basis, using a 10 percent discount rate. Consequently, the Commission disallowed recovery of \$2,273,638, the NPV difference between the fourteen-year payment option offered by NNG and the up-front payment option chosen by the Company.<sup>4</sup>

The Company, in this reconsideration filing, repeated its previous argument that the Department's NPV Supplemental Comments analysis that used a seven percent discount rate, rather than ten percent, shows that the Company selected the lowest cost option for its customers.<sup>5</sup> As such, the Company reiterated its position in its previously filed comments in this docket for the Commission to reconsider its Order and approve the Company's request to recover the CIAC over ten months as the "least cost" option for ratepayers. CenterPoint Energy further stated that, to the extent the Commission continues to support the ten percent discount rate, that it reconsiders and revise its decision and authorize the (new) preferred option of a fourteen-year recovery period.

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<sup>1</sup> Reconsideration Petition at 2

<sup>2</sup> Ibid

<sup>3</sup> Consistent with Commission Rules, Minn. R. 7825.2910 and 7829.2920, that recovery was provisionally approved effective July 1, 2020, subject to subsequent Commission action.

<sup>4</sup> Ibid

<sup>5</sup> Department Supplemental Comments, March 8, 2021 at 6-7.

CenterPoint Energy stated that since the Commission's deliberations on this matter, it has discussed the CIAC payment with NNG, and that they have agreed that the current CIAC can be returned to the Company and a new agreement entered into which reflects the fourteen-year, NNG-financed option.<sup>6</sup> CenterPoint Energy pointed out that implementing the NNG-financed option for payment of this necessary demand entitlement can be accomplished through the following steps:

1. NNG would return the up-front nearly \$50 million CIAC payment to the Company;
2. The refunded payment would be applied to the Company's purchased gas adjustment (PGA) upon Commission reconsideration of the Order and approval of the revised payment structure;
3. The Company would pay for the new construction over fourteen years, as previously offered by NNG;
4. The Company would begin recovery of the new payment structure effective November 1, 2021.<sup>7</sup>

CenterPoint Energy asserted in this filing that executing these steps would provide an additional short-term benefit to customers that the Commission may wish to consider. It noted that it has currently under-recovered by nearly \$90 million for the 2020-21 heating season, after removal of the February market event "extraordinary gas costs." Hence, the Company noted that application of the NNG refund to the PGA in the manner outlined above would mitigate the short-term bill impact of this upcoming true-up on the Company's firm customers.<sup>8</sup>

In conclusion, CenterPoint requested that the Commission reconsider its July 29, 2021 Order in this matter and revise ordering paragraphs 3 and 4, as follows (new language underscored, deleted language struck through) specifically, the Company recommends:<sup>9</sup>

3. CenterPoint is authorized to recover the Northern Natural Gas CIAC through the purchased gas adjustment over the next fourteen years, using the payment structure previously offered by Northern Natural Gas.
- 3a. CenterPoint will apply the Northern Natural Gas refund of the prior up-front payment to the Company's purchased gas adjustment, to reduce the true-up amount related to the 2020-2021 heating season.

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<sup>6</sup> Reconsideration Petition at 3.

<sup>7</sup> Reconsideration Petition at 4.

<sup>8</sup> The Company would note that the new true-up factor will go into effect September 1, 2021. Since it is unlikely the Commission can reconsider this matter in time to apply the NNG refund to the purchased gas adjustment beginning at that date, the Company would recalculate the true-up factor, after reconsideration, to apply the refund prospectively.

<sup>9</sup> Reconsideration Petition at 5.

- 3b. The Company will provide a compliance filing within 10 days of this Order, demonstrating that it has properly applied the refund and properly implemented recovery of the new payment structure.
4. ~~The Commission disallows recovery of an amount equal to \$2,273,638 of the Northern Natural Gas CIAC.~~

CenterPoint Energy observed that deleting ordering paragraph 4 is appropriate, since with these new ordering points the Company will “unwind” its previous agreement with NNG and return the up-front payment to customers prior to implementing the new fourteen-year recovery advocated by the Department and determined by the Commission to be the better option for customers. As such, no basis will remain for a disallowance.

#### **IV. Department of Commerce Comments**

The Department submitted late filed Comments to CenterPoint Energy’s reconsideration request.<sup>10</sup> The Department stated that from an economic perspective, it is largely indifferent between the option the Commission approved and the option the Company proposed in its request for reconsideration to refund the approximately \$50 million it has already collected from ratepayers and to enter into an agreement whereby NNG finances the CIAC and recovers those costs from CenterPoint Energy and its ratepayers over 14 years. By the Department’s estimates, those two options are roughly equal to ratepayers on a net present value (NPV) basis.

Additionally, the Department acknowledged that it is cognizant of the financial effects of the extraordinary natural gas costs currently under consideration related to the February 2021 price spikes. Accordingly, it stated that any action that can reduce the PGA in the near-term is likely warranted.

#### **V. Staff Discussion**

Staff sent an Information Request to the Company on September 16, 2021 for further information about how the nearly \$50 million refund would appear on ratepayer bills, in addition to other clarifications needed. In the Company’s response on September 24, 2021, CenterPoint Energy stated that it plans to credit the CIAC refund directly to the AAA True-up balance. Additionally, the Company stated that it will recalculate and reduce the current gas cost recovery (GCR) factors for the firm classes initially billed for the CIAC and refund the dollars over the months remaining between the implementation date and August of 2022.<sup>11</sup>

Furthermore, the Department pointed out in its comments issued on January 8, 2021, that recovering the cost of the CIAC over fourteen years with NNG’s financing would help to preserve

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<sup>10</sup> Pursuant to Minnesota Rule 7829.3000, subp. 4, answers to a petition for reconsideration are required to be filed within 10 days.

<sup>11</sup> Docket No G008/M-20-565, CenterPoint Energy’s Response to Information Request

intergenerational equity, in addition to helping to alleviate potential rate shock on ratepayers.<sup>12</sup> Staff does concur with the Department's intergenerational assessment.

Based on the above discussion, the Commission may wish to further examine and consider CenterPoint Energy's "new facts" and proposal.

## VI. Decision Options

### Reconsideration

1. Deny CenterPoint Energy's petition for reconsideration. (Acceptable to Department)
2. Grant CenterPoint Energy's petition for reconsideration and approve CenterPoint Energy's alternative proposal to refund the CIAC already collected from ratepayers and allow recovery of NNG's costs over a 14-year period. (CenterPoint Energy; acceptable to Department)

*If the Commission grants the CenterPoint petition for reconsideration and approves the alternative proposal, then:*

### CIAC Refund Compliance Filing

3. Direct CenterPoint Energy to make a compliance filing within 10 days of the order after reconsideration, demonstrating that it has properly applied the refund and properly implemented recovery of the new payment structure. (CenterPoint Energy).
4. Direct CenterPoint Energy to file an amended PGA in Docket # 21-114, to provide an updated number of what will flow through the PGA during the recovery period. (Staff)

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<sup>12</sup> Docket No G008/M-20-565, Department of Commerce Reply Comments; p. 6