**STATE OF MINNESOTA**
**PUBLIC UTILITIES COMMISSION**

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| In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan | Docket No. G-008/M-23-215 |

**Initial Comments of the Citizens Utility Board of Minnesota**

The Citizens Utility Board of Minnesota ("CUB") respectfully submits these Supplemental Comments in response to the Minnesota Public Utilities Commission's ("Commission") Notice of Extended Comment Period issued on October 31, 2023, as well as parties' Reply Comments filed on March 15, 2024, in the above-referenced matter.

## I. INTRODUCTION

As noted in our Initial Comments,[1] CUB recognizes the significant amount of time and effort CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas ("CenterPoint" or the "Company") put into preparing its Natural Gas Innovation Act Plan ("NGIA Plan" or the "Plan").[2] We also appreciate the insights and perspectives provided by other parties and their efforts to communicate with us about the concerns, questions, and suggestions we have raised thus far. We offer below further-developed recommendations that build off our Initial Comments and respond to the positions of other parties.

We have organized our discussion into two broad categories. First, we discuss and make recommendations on topics of general application to CenterPoint's NGIA Plan. Second, we discuss and make recommendations on some of the specific pilots and R&D projects included in the Plan. Our silence on some pilots and projects does not indicate a recommendation of approval or denial of that specific component of the Plan. Rather, we focused our resources on those aspects of the Plan where we believe we can make the most valuable contributions to the record before the Commission.

[1] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, Initial Comments of the Citizens Utility Board of Minnesota at 1 (Jan. 16, 2024) (hereinafter "CUB Initial Comments").
[2] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan (June 28, 2023) (hereinafter "CenterPoint NGIA Plan").

## II. DISCUSSION OF OVERARCHING ISSUES

### A. CenterPoint's modified proposal corrects incremental cost miscalculations.

In its January 3, 2024 Letter, CenterPoint acknowledged certain incremental commodity costs associated with its Plan had been incorrectly calculated. As the Company describes, a "mismatch between the calendar years used for the Plan start year . . . and the commodity cost values . . . led to an overestimate" of savings.[3] This miscalculation caused the Company's proposed Plan to exceed statutorily allowed cost caps by approximately $550,000. To correct the Plan's noncompliance with statute, CenterPoint updated the commodity cost savings estimates of its RNG projects in Reply Comments and made several adjustments to Pilot C.[4] Together with other Plan modifications, the Company's revised portfolio comes in at a total cost of $105.7 million, which falls just below the statutory cost cap when the RNG adder is included.[5]

CUB appreciates CenterPoint's inclusion of the modified incremental costs and finds these revisions place the Plan within the cost parameters established by statute.

### B. NGIA Plans should be consistent with Minnesota's GHG emission reduction goals.

The Clean Energy Organizations ("CEOs") and CenterPoint express differing interpretations on the public policy purpose of the Natural Gas Innovation Act ("NGIA"), its relationship to Minnesota's state greenhouse gas ("GHG") emissions reduction goals, and how that relationship should inform cost effectiveness objectives applicable to the Company's NGIA Plan.

CenterPoint notes that the NGIA "serves an important step in the process to achieving [state GHG reduction] goals in a cost-effective and equitable manner" and that NGIA provides a "testing ground" the Company can use before it "can select the technologies and programs that will allow [it] to achieve a net-zero economy."[6] The Company also includes the following among the cost effectiveness objectives proposed in the Plan: (1) to achieve "overall lifetime GHG emissions reductions equivalent to 14% of emissions from the Company's 2020 sales," and (2) "over the five-year term of the plan, achieve annual, first-year GHG emissions reductions equal to 1% of emissions from the Company's 2020 sales."[7]

However, the CEOs are not convinced the Company's Plan goes far enough in its alignment with State GHG emissions reduction goals. The CEOs recommend that the Company modify its proposal to clearly articulate how the Plan will help the Company acheive GHG emission reductions

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[3] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, CenterPoint Reply Comments at 28 (Mar. 15, 2024) (hereinafter "CenterPoint Reply Comments").
[4] CenterPoint Reply Comments at 28.
[5] CenterPoint NGIA Plan at 18-19.
[6] CenterPoint Reply Comments at 2.
[7] CenterPoint NGIA Plan at 31.

"commensurate with the Company's 'fair share' of Minnesota's economy-wide emissions reduction goals."[8] Finally, the CEOs included recommendations to evaluate the Company's progress in contributing to state GHG emission reductions. In support of these recommendations, the CEOs include a figure (both in Initial and Reply Comments) showing how the "emission reductions the Company estimates it will achieve over the course of its five-year plan . . . compare to what its emissions would need to be if it: (1) strictly adhered to state short- and long-term emission reduction targets . . . or (2) followed an alternative, more moderate emission reduction trajectory based on linear average annual reductions between its 2020 baseline and the net-zero-by-2050 state goal."[9] Ultimately, in Reply Comments, the CEOs recommend that the Company replace the two proposed objectives quoted above "with a single objective that specifies the plan achieves or makes meaningful progress toward achieving Company-wide emission reductions of at least 30% by 2029, relative to the Company's 2020 baseline."[10]

In response to the CEOs' recommendations on this topic, CenterPoint argues that the NGIA statute "does not request or enable gas utilities to file carbon plans" but rather, the NGIA "is exploratory in nature, prompting gas utilities to test out innovative resources and approaches to their deployment."[11] The Company further states, "[t]he very name of the [NGIA] statute includes the word 'innovation,'" and, "[w]hile potential GHG reductions are an important part of this exploration, they are not the singular focus of the statute."[12] Finally, CenterPoint argues "it would be contrary to both the statutory intent and the public interest to attempt bypassing the learning opportunities that the NGIA affords by contorting the statutory framework into a rigid focus on achieving specific system-wide levels of GHG reductions on a defined schedule."[13]

1. <u>CUB partially agrees, and partially disagrees, with CenterPoint's interpretation of the relationship between the NGIA and the State's GHG emission reduction goals.</u>

CUB agrees with aspects of both the Company's and the CEO's comments on the relationship between the NGIA and the State's GHG emission reduction targets. On one hand, we agree with CenterPoint's position that NGIA plans are not mandatory "carbon plans" akin to, for example, Clean Heat Plans required in Colorado.[14] However, we disagree with CenterPoint's assertion that GHG emission reductions are "not the singular focus of the [NGIA] statute."

Rather, we agree with the CEOs that "[t]he purpose and goal of NGIA is to reduce GHG emissions from the distribution and combustion of natural gas in the retail gas system to meet the state's GHG and

[8] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, Initial Comments of the Clean Energy Organizations at 8 (Jan. 16, 2024) (hereinafter "CEO Initial Comments").
[9] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, Reply Comments of the Clean Energy Organizations at 8 (Mar. 15, 2024) (hereinafter "CEO Reply Comments").
[10] CEO Reply Comments at 10.
[11] CenterPoint Reply Comments at 9.
[12] *Id*.
[13] *Id*. at 10.
[14] *See* https://puc.colorado.gov/cleanheatplans.

renewable energy goals."[15] The Legislature was clear on this point. As described by Minnesota State Senator Bill Weber in a 2021 Senate floor debate preceding passage of the NGIA, the NGIA is designed to evaluate resources that "advance the state's alternative energy and greenhouse gas reduction goals."[16] The language of the NGIA states "it is the goal of the state of Minnesota that through the [NGIA], utilities reduce the overall amount of natural gas produced from conventional geologic sources delivered to customers."[17] The Act further provides that NGIA plans must describe the innovative resources "the utility plans to implement to contribute to meeting the state's greenhouse gas and renewable energy goals, including those established in. . . subsection 216h.02, subdivision 1" (which establishes the State's incremental GHG emissions reduction targets).[18] The Act prohibits the Commission from approving an NGIA plan unless the Commission finds, among other things, that "the total amount of estimated greenhouse gas emissions reduction or avoidance to be achieved under the plan is reasonable considering the state's [GHG emission reduction goals]."[19] In short, while we agree the NGIA is designed to support innovation, the purpose and focus of that innovation is to forward the State energy policy goal of reducing GHG emissions.

Importantly, we do not interpret the CEOs recommended revisions to the Company's cost effectiveness objectives as being determinative of whether the current NGIA Plan is approved or denied. In other words, we do not interpret the CEOs as recommending—nor does CUB recommend—that the Commission deny approval of an NGIA Plan based on a "rigid focus on achieving specific system-wide" GHG reduction targets on a defined schedule.[20] Rather, we interpret the CEOs recommendations as applying to the Commission's review of CenterPoint's performance under the Plan, and whether that performance supports increasing the Company's budget in its next filed NGIA Plan pursuant to Subdivision 3(c) of the NGIA.[21]

2. <u>CUB recommends that the Commission directly consider the effectiveness of NGIA Plans in contributing to the State's GHG emission reduction goals.</u>

The CEOs' analysis and visualization of the Company's estimated emission reductions, as compared to the reductions needed to achieve the net-zero-by-2050 State goal, is a helpful and sobering reminder of how much work must be done to achieve the state's GHG emission reduction goals. Proactive, aggressive efforts to curb GHG emissions must be balanced against the important need to protect captive ratepayers from paying more than reasonable to support experimental pilots. The

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[15] CEO Initial Comments at 5.
[16] Comments of Sen. Weber, Minn. Sen., Floor Debate, 92nd Minn. Leg., Reg. Sess. at 04:34 (May 6, 2021), *available at* https://mnsenate.granicus.com/player/clip/7133?view_id=5&redirect=true&h=fde54dd20777b2480b739c3ff7c9746d.
[17] Minn. Stat. § 216B.2427, Subd. 10.
[18] Minn. Stat. § 216B.2427.
[19] *Id*. at Subd. 2(b)(7).
[20] CenterPoint Reply Comments at 10.
[21] *See* Minn. Stat. § 216B.2427, Subd. 3(c) (providing that "if the Commission determines that the utility has successfully achieved the cost-effective objectives established in the utility's most recently approved innovation plan, the next subsequent plan filed by the utility" is subject to a higher cap on total incremental costs).

pursuit of both these objectives demands setting meaningful cost-effectiveness targets to use when evaluating the Company's Plan.

We agree with the CEO's that it would be useful, for informational purposes, for the Company to provide in its NGIA Plan an estimation of the Company's role in producing GHG emissions in Minnesota and a description of how the Plan, as a whole, helps the Company reduce GHG emissions: (1) in proportion to the emissions associated with CenterPoint's service, and (2) according to the timeline and incremental goals established by the Legislature. This information could help the Commission (and other stakeholders) assess the value and effectiveness of the initial NGIA Plan and future iterations thereof. The Commission could order the Company to modify its initial Plan to include this information. Alternatively, this information be included in the Minnesota Net Zero Study CenterPoint proposes as one of the R&D Projects proposed under the Plan, to then be incorporated into and updated in future plans. We recommend this latter approach.

We also support the CEO's recommendation to "replace the first and second objectives under Environment with a single objective that specifies the plan achieves or makes meaningful progress toward achieving Company-wide emission reductions of at least 30% by 2029, relative to the Company's 2020 baseline."[22] We understand this is an ambitious target. Our support is premised on the understanding that achieving this objective involves a *subjective* assessment of the Company's "meaningful progress" towards that *objective* goal. We believe this provides room for the Company to describe why, and the Commission to determine whether, the Company's progress is "meaningful," even if the Company asserts it is impractical or not cost-effective to achieve an objective emissions reduction target according to a specified timeline.

### C. The Commission should deny CenterPoint's variance request, or implement additional parameters that clarify allowable uses and limit the ability to substantially modify the Plan without Commission oversight.

CUB continues to oppose CenterPoint's request to "spend up to 25 percent more than budgeted for pilots with higher-than-expected expenditures without seeking any additional approval from the Commission."[23] As we articulated in Initial Comments, this variance would operate outside the process established by statute and could significantly alter the size and cost-effectiveness of pilot programs.[24] In contrast, pursuing pilot changes through the annual review process aligns with statutory directives. While we understand CenterPoint's desire to maintain flexibility in the face of fluctuating project costs and enrollment levels, we caution against allowing significant modifications to the Company's Plan without proper oversight. For these reasons, our primary recommendation remains to deny the variance request. If the Commission ultimately chooses to approve CenterPoint's variance request, we respectfully recommend that additional restrictions be put in place to protect consumer interests.

[22] CEO Reply Comments at 10.
[23] CenterPoint NGIA Plan at 10.
[24] CUB Initial Comments at 10-11; Minn. Stat. § 216B.2427, Subd. 2(g).

To be clear, CUB continues to believe the annual review process detailed in Minn. Stat. § 216B.2427, Subd. 2(g) is the only statutorily proscribed method for seeking modifications to pilots or plans. After reviewing the Company's annual reports, Subdivision 2 grants the Commission authority to (1) approve pilot continuation with or without modifications; (2) require the utility to file a new or modified pilot or plan; or (3) disapprove the continuation of a pilot or plan. No other section of the statute contemplates allowing pilot modifications during the pendency of the Plan term.

Nonetheless, the Commission may find that a flexible budget allowance could help counteract unanticipated changes to enrollment levels or project costs. In narrow circumstances, a 25 percent variance could allow reasonable reallocations of pilot budgets to ensure optimal emissions reductions are achieved in a cost-effective manner. However, we are concerned that allowing broad application of the variance could substantially alter the scope of the approved Plan without proper review. In order to ensure the variance is reasonably limited, additional restrictions must be developed around its use. As discussed in greater detail below, if the Commission adopts a budget variance mechanism, we recommend the following additional parameters be established:

- Prohibit using the variance to reduce any single pilot budget by more than 25 percent.
- Require any budget increases or decreases exceeding 25 percent to go through the annual review process. The Company's annual review filing must identify any avenues that could be taken to increase enrollment or improve performance of underperforming pilots and provide a justification for why these options are not reasonable.
- Require the Company to explain how budgets were modified and why such modifications were warranted in annual review filings.
- Prohibit using the variance until the third year of the Plan in order to provide sufficient time for pilots to reach maturity and enroll participants.
- Prohibit using the variance to reduce the budgets of pilots that are performing at the cost and emissions reductions levels identified in the Plan proposal.
- Require the Company to conduct a wide-ranging analysis of pilot performance that takes into account both participation levels and realized cost-effectiveness when determining whether the variance can be employed to alter pilot budgets.

When paired with the above recommendations, the variance should allow a reasonable degree of flexibility during the interim period between compliance filings. The Company may also pursue more substantial modifications through the annual reporting processes outlined in Minn. Stat. § 216B.2427, Subds. 2(f) and (g).

1. <u>The fundamentally distinct structures of ECO and NGIA necessitate establishing additional parameters around the Company's proposed variance.</u>

CenterPoint relies on the presence of a 25 percent variance in in the Energy Conservation and Optimization Act ("ECO") to justify why a similar degree of flexibility is warranted for its NGIA Plan.[25] In analyzing the reasonableness of the Company's request, it is therefore essential to distinguish the treatment of variance requests under ECO from their proposed use in NGIA. Both statutory programs facilitate the reduction of natural gas throughput,[15] but they do so under materially different frameworks. Within ECO, there is no statutorily prescribed cost cap that limits the amount of money a utility can devote to cost-effective projects. This means that increasing one program's budget does not necessarily entail reducing expenditures for other projects. This is not the case with NGIA. CenterPoint must strictly abide by Minn. Stat. § 216B.2427, Subd. 3, and keep incremental costs below the statutory threshold. Because the Company's planned investments are roughly equal to the cost cap amount, any budget increase for a given pilot must be accompanied by an equivalent decrease in other pilot budgets. For this reason, we do not support transposing ECO's 25 percent variance threshold into NGIA without developing additional parameters that constrain the scope and scale of sub-annual project modifications.

2. <u>The Commission should prohibit sub-annual budget reductions of more than 25 percent.</u>

While CenterPoint emphasizes it will not use the variance in a way that would cause the Plan to "exceed its statutory cost cap or fail to satisfy any other statutory requirements,"[26] this is not the only concern that CUB has. One of the primary purposes of NGIA is to evaluate a wide array of alternative fuels and innovative resources; in order to prevent the Company's use of the variance from interfering with this goal, we find it necessary to not only establish limits on how much a given pilot's budget can increase, but also how much other budgets can be lowered. In addition to the parameters we propose below, we recommend the Commission impose a restriction that no individual pilot budget be decreased by more than 25 percent without Commission approval. This mirrors the upper bound of the variance mechanism and helps maintain a diversity of projects and technologies. If CenterPoint seeks to decrease pilot budgets by more than this amount, the Commission can evaluate those modifications through the annual review process. As part of the Company's annual review filing, it should identify any avenues that could be taken to increase enrollment or improve performance and provide a justification for why these options are not reasonable. If the Commission finds a budget reduction is warranted after reviewing that information, it can approve the request and/or disapprove the continuation of the underperforming pilot.[27]

[25] CenterPoint NGIA Plan at 10; CenterPoint Reply Comments at 13-14.
[26] CenterPoint Reply Comments at 13-14.
[27] Minn. Stat. § 216B.2427, subd. 2(g).

3. The Commission should require the Company to consider both participation levels and realized cost-effectiveness when determining whether the variance can be employed to alter pilot budgets.

In addition to implementing outer limits on the use of the variance mechanism, the Commission should establish uniform criteria to better define when departures from pilot budgets are allowed. CenterPoint broadly describes its proposed variance as a means of "reallocat[ing] funding from pilots with lower-than-expected expenditures, due to low participation or other factors, to pilots with higher-than-expected expenditures."[28] CenterPoint further clarified in Reply Comments that the variance is designed to benefit projects that are "performing better than anticipated."[29] However, the Company has not explained how it will evaluate performance for this purpose.

Depending on which metrics are used to gauge performance, there could be substantial differences in how the variance is employed. For example, if CenterPoint premises performance evaluations solely on enrollment levels, the Company could potentially increase budgets for projects that are still in the initial development stages before technologies are deployed and cost-effectiveness data is gathered. Further, if enrollment is the guiding factor in determining performance, budgets could be increased even if the projects exceed the cost-effectiveness thresholds established in the Plan. For this reason, we recommend that the Commission require the Company to consider both participation levels and realized cost-effectiveness when evaluating whether a project should be subject to the variance. The Company should also be required to explain in its annual report how budgets were modified and why such modifications were warranted.

4. The Commission should restrict variance use during the first two Plan years.

The need to establish constraints also extends to pilots whose funds would be depleted as a result of using the variance mechanism. CenterPoint's proposal relies on projects with "lower-than-expected expenditures, due to low participation or other factors," to fund the variance.[30] In theory, this should allow resources to be reallocated to pilots where emissions and gas throughput reductions are most cost effectively achieved. We see the benefits of this approach, but question how the reallocation of funds might play out in practice. First, we have concerns about reallocation decisions being made before projects fully get off the ground. Additional time could be set aside to address pilot shortfalls prior to using the variance mechanism. For example, the Company could engage in new or revised marketing campaigns if it experiences low pilot enrollment levels in initial Plan years. For this reason, we recommend the variance only be allowed after the second Plan year.

Second, it is unclear whether the Company would attempt to use the variance if all pilots perform consistent with Plan estimations. In such a scenario, no pilot would have "lower-than-expected expenditures," thereby reducing or eliminating the availability of variance funding. We recommend

[28] CenterPoint Reply Comments at 13.
[29] *Id*. at 14.
[30] *Id*. at 16.

the Commission prohibit using the variance under these conditions, and instead require modifications be proposed in the utility's annual review filing.

### D. The Commission should approve, with conditions, CenterPoint Energy's proposal for recovering the costs associated with its 2023 NGIA Plan, including the requested variance to Minn. R. 7825.2400.

The NGIA allows for prudently incurred costs under an approved plan to be recoverable either (1) through the utility's purchased gas adjustment ("PGA"); (2) in the utility's next general rate case; or (3) via annual adjustments.[31] CenterPoint indicates they intend to utilize all three cost-recovery options.

In Initial Comments, CUB raised several questions about CenterPoint's requested variance under Minn. R. 7829.3200 to recover certain NGIA costs through the PGA mechanism. CUB further recommended that, should the Commission grant the requested variance, it do so only for the automatic one-year statutory time period and require CenterPoint to seek an extension each year through its annual NGIA reporting.[32] CenterPoint replied that while it does not oppose ongoing review of authorized PGA recovery, it would prefer the variance be granted for an initial five-year term, after which an extension would need to be secured for subsequent PGA recovery.[33] The variance could be revoked by the Commission at any time, due to changes in circumstances or failure to comply with requirements imposed as a condition of receiving the variance.[34]

CenterPoint argues that requiring the PGA variance to expire annually would increase regulatory workload for the Department of Commerce and impose unreasonable timing pressure on approval of the Company's annual NGIA reports to ensure the variance is extended prior to expiration.[35] CUB understands these concerns and agrees that the timing of the annual review process should not unnecessarily impede cost recovery through the PGA mechanism. Therefore, CUB does not oppose CenterPoint's request for the Commission to grant a five-year variance, so long as CenterPoint provides robust information in annual NGIA filings as a condition of receiving the variance. As recognized by the Company, the provision of such information would allow stakeholders and the Commission to "review the continued reasonableness of PGA recovery."[36]

As the Company notes in their reply, information found in the Company's monthly PGA filings and AAA reports will provide important opportunities for partes and the Commission to review PGA recovery of NGIA Plan costs.[37] Therefore, CUB recommends that the Commission require the Company to include relevant information from monthly PGA filings and AAA reports in their annual NGIA Plans to allow for comprehensive review of the cost recovery mechanism. If information pertinent to review of

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[31] CenterPoint NGIA Plan at 19 (citing Minn. Stat. § 216B.2427, subd. 2(c)).
[32] CUB Initial Comments at 11-13.
[33] CenterPoint Reply Comments at 91.
[34] *Id.*; Minn. R. 7829.3200, Subp. 3.
[35] CenterPoint Reply Comments at 91.
[36] *Id*.
[37] *Id*.

the cost recovery—and thus pertinent to determining continued validity of the variance request—is siloed into different dockets, CUB is concerned it will make identification of problems in the process difficult for parties and the Commission. By aggregating the information into CenterPoint's NGIA filings, annual review of the PGA cost recovery mechanism can be streamlined.

Notwithstanding the foregoing, CUB continues to recommend that, to the extent CenterPoint invests in biogas upgrading equipment for any of the RNG pilots, the Company should request to recover those additional costs through a general rate case and not the PGA mechanism.[38] Review through a general rate case would help to best ensure that such investments are only recovered if prudent and cost-effective.

**E. The Commission should modify the process associated with approving cost-effectiveness objectives and adopt a holistic evaluation methodology.**

1. The Commission should require a filing that updates cost-effectiveness objectives based on the final, approved scope of the Company's NGIA Plan.

The NGIA requires the Commission to establish cost-effectiveness objectives for CenterPoint's Plan based on the cost-benefit analytic framework developed pursuant to Minnesota Statute § 216B.2428.[39] The Company must annually report on its progress towards meeting those objectives.[40] If the Commission determines such objectives are "successfully achieved" at the end of the NGIA term, then the statutory cap on incremental costs will be adjusted upwards in subsequent plans.[41]

As CUB articulated in Initial Comments, these objectives should be determined based on the set of resources and pilots ultimately approved by the Commission. Because the Commission "may reject certain pilot projects or require modifications," the scope and scale of the Company's Plan remains uncertain until approval is granted.[42] Any revision to the Company's NGIA Plan could impact emission reductions and geologic gas savings estimates, thereby altering Plan cost-effectiveness and the reasonableness of proposed objectives.[43] In responding to our concerns, CenterPoint acknowledged that a "subset of the objectives . . . would need to be recalibrated or modified to account for any changes to the Plan approved by the Commission."[44] The Company indicated these revisions could be easily completed based on the "final approved plan without the need for delay."[45]

We agree with CenterPoint that it would be appropriate to pursue a path forward that provides the Company with clear direction and does not delay a Commission decision on Plan approval. At the same time, we continue to believe the Commission should render a decision on cost-effectiveness

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[38] As discussed in our Initial Comments, should the Company invest in any biogas upgrading equipment for the production of pipeline quality RNG, such costs should not be recovered through the PGA mechanism. CUB Initial Comments at 12.
[39] Minn. Stat. § 216B.2427, subd. 2(e).
[40] Minn. Stat. § 216B.2427, subd. 2(f)(6).
[41] Minn. Stat. § 216B.2427, subd. 3(c).
[42] CUB Initial Comments at 14.
[43] *Id*.
[44] CenterPoint Reply Comments at 21.
[45] *Id*.

objectives only after the parameters of the Plan are set.

To strike a balance between accuracy and administrative efficiency, we recommend the Commission establish cost-effectiveness objectives "contemporaneously with the approval [or modification] of the Company's NGIA Plan,"[46] but require a subsequent compliance filing with updated objectives that will be subject to a 30-day negative check-off. This way, the Commission can make a timely determination on high-level objectives (i.e. in the same hearing, but after rendering a decision on the remainder of the Plan), but still maintain oversight of the revisionary process. Pursuant to the negative check-off, the Company would file updated cost-effectiveness objectives within 30 days of the Commission issuing its Order approving the Plan. Upon submitting its compliance filing, parties would be given a chance to air concerns with the updated calculations; if no disagreements are filed within 30 days of the Company's filing, the comment period will close and the cost-effectiveness objectives will go into effect. If any filed comments raise contested issues, the Commission will issue a Notice of Comment and the matter will be brought to an agenda meeting.

2. <u>The Commission should evaluate cost-effectiveness on a holistic basis.</u>

CenterPoint continues to recommend that the Commission preemptively establish the standard by which it will judge whether cost-effectiveness objectives are successfully achieved. Both in its Initial Petition and Reply Comments, the Company argued that success should be determined based on whether a simple majority of cost-effectiveness objectives are met.[47] Although CUB appreciates CenterPoint's desire to gain clarity on how its Plan will be evaluated, we do not believe the proposed approach is appropriate. As further detailed below, we recommend the Commission employ a holistic evaluation process.

In Initial Comments, CUB emphasized how the Commission need not make a determination on how "successful achievement" is measured at this point in time.[48] Rather, we recommended the Commission deny or take no action on the Company's request.[49] Although we continue to believe it would be reasonable for the Commission to refrain from setting a standard of evaluation in this proceeding, we understand CenterPoint's desire to obtain timely guidance on how its performance will be assessed. Upon review of Northern States Power Company, d/b/a Xcel Energy's ("Xcel") first-filed innovation plan, we believe that a slight modification to our initial recommendation is warranted.

As part of its proposal, Xcel suggested that its proposed cost-effectiveness objectives "be considered holistically . . . with the acknowledgement that some tradeoffs exist between maximizing different objectives."[50] A similar approach should be employed here to provide CenterPoint high-level guidance

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[46] *Id*.
[47] CenterPoint NGIA Plan at 32; CenterPoint Reply Comments at 21-23.
[48] CUB Initial Comments at 16.
[49] *Id*.
[50] *In the Matter of Northern States Power Company d/b/a Xcel Energy's Natural Gas Innovation Act (NGIA) Plan*, Docket No. G002/M-23-518, Xcel Initial Petition at 46 (Dec. 15, 2023).

and maintain the flexibility required for the Commission's evaluation process.

Under a holistic evaluation method, the Commission could give greater weight to certain metrics or variables in a way that would not be possible with the Company's proposed "majority" standard. This would alleviate some of the issues we raised in Initial Comments about CenterPoint's proposed objectives being too easily met. We reiterate those concerns below, but through the lens provided by a holistic standard of evaluation. Rather than outrightly rejecting objectives that are insufficiently rigorous, we recommend the Commission give them less weight when it conducts its review of the Company's NGIA performance.

### 3. Cost-effectiveness objectives should be meaningful and ambitious.

As outlined in statute, if CenterPoint "successfully achieves" the objectives set by the Commission, it is entitled to increase subsequent NGIA budgets.[51] Exclusive of the RNG adder, the recoverable costs of CenterPoint's current NGIA Plan are capped at 1.75 percent of gross operating revenues or $20 per nonexempt customer per year, whichever is less. Achieving Commission-approved objectives would allow the Company to increase spending in its second-filed Plan to 2.75 percent of gross operating revenues or $35 per nonexempt customer. This budget increase could raise the annual base cost cap of the Company's second-filed Plan by $13.6 million and the full 5-year cost cap by $67.9 million.

**Figure 1: Application of Budget Increase for Second-Filed NGIA Plan**[52]

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| **CenterPoint's First NGIA Plan** | 1 | CenterPoint Energy's Gross Operating Revenues from natural gas service provided in Minnesota at the time of Plan filing | $1,209,096,803[53] |
| | 2 | Line (1) x 1.75% | $21,159,194 |
| | 3 | CenterPoint Energy customers | 905,924 |
| | 4 | CenterPoint Energy CIP-exempt customers | 15 |
| | 5 | Line (3) - Line (4) | 905,909 |
| | 6 | Line (5) x $20 per nonexempt customer | $18,118,180 |
| | 7 | Lesser of Lines (2) and (6) | $18,118,180 |
| **CenterPoint's Second NGIA Plan** | 8 | Line (1) x 2.75% | $33,250,162 |
| | 9 | Line (5) x $35 per nonexempt customer | $31,706,815 |
| | 10 | Lesser of Lines (8) and (9) | $31,706,815 |
| | 11 | Line (10) - Line (7) | $13,588,635 |
| | 12 | Line (11) x 5-year term | $67,943,175 |

[51] Minn. Stat. § 216B.2427, Subd. 3(c).

[52] *See* CenterPoint NGIA Plan at 18 (including cost calculations for current Plan).

[53] For the sake of this calculation, CUB has maintained the gross operating revenues identified in CenterPoint's current Plan filing. However, the Company is requesting increase annual gross revenues by $84.6 million in 2024 and $51.8 million in 2025. *See generally In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G008/GR-23-173, General Rate Petition Summary of Filing (Nov. 1, 2023).

The Commission's review of cost-effectiveness objectives at the end of the NGIA term therefore serves as an initial determination of whether the Company may request an additional $68 million from customers for innovative resource projects. Given the substantial amount of ratepayer funding that depends on successful achievement of these objectives, the selected criteria should, if achieved, assure the Commission that continued investment is both directionally consistent with state policy goals and will provide ratepayers with an appropriate level of tangible benefits. For this reason, CUB believes the Commission should attribute the greatest weight to those cost-effectiveness objectives that are sufficiently rigorous and align with these desired outcomes.

As detailed in CUB's Initial Comments, several of CenterPoint's proposed cost-effectiveness objectives fall short of this threshold. Specifically, the Company's low-carbon fuel and innovation objectives are under ambitious and should not be used as primary indicators of Plan success. We continue to recommend denial of these objectives if the Company's "majority" standard for Plan evaluation is adopted. In contrast, we are not opposed to the inclusion of such objectives under a holistic evaluation standard, so long as the Commission attributes appropriate weight to them in its review of NGIA performance. We reiterate our concerns with each of these objectives below.

First, the Company proposes as an objective "supporting the development of four new sources of low-carbon fuels produced in Minnesota."[54] In Initial Comments, we argued the Company's objective would be easily met "so long as its Pilot C RFP produces a minimal number of successful bids."[55] The Company argued this characterization is inaccurate because not all bids will be for in-state facilities.[56] We disagree with the Company's position. Although Pilot A has been removed from the Company's proposal, Pilots B, C, and D remain capable of producing low-carbon fuels. We do not support Pilot D and have major concerns with Pilot C's scope and lack of information. However, should the Commission approve these projects, then both Pilots B and D would contribute to the Company's "Made in Minnesota" objective, leaving only two in-state projects to be fulfilled through Pilot C.[57] We recommend the Commission recognize this when attributing proper weight to the Company's proposed cost-effectiveness objective.

Second, CUB opposed two of the Company's proposed innovation objectives that premised Plan success on whether the Company supported projects using six different innovative resources.[58] As previously articulated, numerous statutory provisions mandate the use of at least four innovative resources.[59] CenterPoint has included six such resources in its Plan, with the potential for a seventh.[60] In explaining its proposed objective, the Company recognized a difference between planning and

[54] CenterPoint NGIA Plan at 30.
[55] CUB Initial Comments at 14.
[56] CenterPoint Reply Comments at 25.
[57] *Id.* at 35-36, 55.
[58] CUB Initial Comments at 15-16.
[59] *Id.*
[60] CenterPoint Reply Comments at 27.

implementing NGIA projects, and suggested this evaluation metric would remain unmet if those six resources were not "actually deployed."[35] This clarification is helpful, as it provides parameters around the otherwise vague language of "support[ing] projects using . . . innovative resources."[61] Still, we do not believe that simple deployment, alone, is an indicator of Plan success. Such resources should be deployed at a scale and cost that is consistent with (or, for cost, below) project proposals. For this reason, we believe this objective is only appropriately included when Plan performance is evaluated on a holistic basis.

Lastly, CUB opposed premising a $68 million budget increase on whether the Company provided lessons-learned reports at the conclusion of ratepayer-funded R&D testing. Such lessons should be shared with the Commission and stakeholders "regardless of whether an objective is based on such reports."[62] In response to our concerns, CenterPoint added a requirement to its proposed objective that the Company "take actions on learnings identified in R&D pilots."[63] We appreciate CenterPoint's commitment to internalizing the outcomes of its NGIA projects. This is standard practice and should inform the Company's future innovative resource procurements. For this reason, while we support CenterPoint's proposed modification, we still recommend the Commission deny this objective if the "majority" test is used for cost-effectiveness review. In the alternative, the Commission should attribute appropriate weight to this objective when holistically evaluating NGIA performance.

### F. The Commission should approve CenterPoint's proposal for filing annual reports and accept the additional information the Company has committed to providing.

CUB finds CenterPoint's proposal to file annual status reports in June and include performance data from the prior calendar year to be reasonable.[64] We also appreciate the Company's acceptance of our recommendations to expand the scope of these filings. CenterPoint is not opposed to providing updates on IRA implementation or detailing pilot-specific GHG emissions reduction data in annual status reports.[65] These modifications will help provide greater transparency into Plan performance and help the Commission make informed decisions about whether to continue, modify, or discontinue pilot projects.[66]

For these reasons, we recommend the Commission require that annual reports include information on IRA implementation and outcomes, as well as pilot-specific GHG emissions reduction data.

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[61] *Id.*
[62] CUB Initial Comments at 16.
[63] CenterPoint Reply Comments at 27-28.
[64] CUB Initial Comments at 17.
[65] CenterPoint Reply Comments at 99.
[66] *See* Minn. Stat. § 216B.2427, subd. 2(g) (stating that when evaluating annual reports, the Commission may approve the continuation of pilots, with or without modifications; require a new or modified pilot or plan; or disapprove of the continuation of a pilot or plan).

**G. The Commission should direct CenterPoint to conduct additional analyses on how to reduce cost impacts on low- and moderate-income customers in the Company's first annual NGIA report.**

1. <u>CenterPoint should further consider cost impacts on low- to moderate-income customers and provide further information in its first annual Plan report.</u>

CUB continues to emphasize the importance of ensuring utility decarbonization efforts appropriately consider impacts to low- and moderate- income customers.[67] Under the NGIA, utilities filing innovation plans must identify "the steps the utility has taken or proposes to take to reduce the expected cost of the plan on low- and moderate-income residential customers."[68] To that end, CenterPoint proposed to include information in NGIA customer communications about how customers can learn more about existing bill assistance programs.[69] CUB found this approach insufficient and recommended the Company provide further evaluation of potential pathways to lower the amount of Plan costs assessed to low- and moderate-income customers.[70]

In Reply Comments, CenterPoint again asserted that its Gas Affordability Program ("GAP") provides sufficient guardrails for households to manage energy costs.[71] CenterPoint suggested that creating any new exemption processes specifically within NGIA would create additional administrative burden, and the Company's efforts would be better focused on building stakeholder processes in GAP.[72] While CUB appreciates the Company's thoughts on improving existing processes, we believe CenterPoint's reliance on GAP is insufficient. Specifically, the Company's approach fails to give adequate consideration to expected Plan cost impacts on moderate-income households and many low-income households as required under NGIA statute.

GAP provides eligible customers with affordability and arrearage forgiveness credits that help reduce customer payments to a percentage of their annual income. We appreciate the substantial benefit that GAP brings to many households in CenterPoint's service territory, and have worked with the Company and other stakeholders to improve program accessibility and reach.[73] However, to receive GAP assistance participants must be enrolled in the federal Low-Income Home Energy Assistance Program ("LIHEAP"), which is only available to households who have an annual income below 50 percent of the state median income. While the NGIA does not specifically define what parameters qualify as low- or moderate-income, the LIHEAP-enrolled subset of customers is insufficient to capture the statute's intended range because it does not include moderate-income customers.[74]

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[67] CUB Initial Comments at 18.
[68] Minn. Stat § 216B.2427, subd. 2(a)(13).
[69] CenterPoint Petition at 24. [[Elsewhere, is this called "CenterPoint NGIA Plan" rather than "CenterPoint Petition?"]]
[70] CUB Initial Comments at 18.
[71] CenterPoint Reply Comments at 95.
[72] *Id.* at 95.
[73] See generally, *In the Matter of CenterPoint Energy Minnesota Gas' 2022 Annual GAP Report*, Docket No. G-008/M-23-84.
[74] 42 U.S.C. § 8621(a) ("The Secretary is authorized to make grants, in accordance with the provisions of this subchapter, to States to assist low-income households, particularly those with the lowest incomes, that pay a high proportion of household

GAP participation also fails to capture the majority of low-income customers. For example, under ECO "low-income household" is defined as households whose income is 80 percent or less of the area median household income for the geographic area in which the low-income household is located—including a broader subset of customers under the term "low-income" than LIHEAP enrollment does.[75] Moreover, even of the low-income customers who do qualify for LIHEAP, not all are able to enroll due to chronic insufficient funding.[76] In 2019, only around 26 percent of the households eligible to receive LIHEAP in Minnesota were actually enrolled in the program.[77] Because GAP participation requires receipt of a LIHEAP grant, this shortfall also means the number of households eligible to receive GAP far exceeds those who are enrolled and insulated from excessive energy cost burdens. Even with additional buildout of GAP outreach by CenterPoint as proposed in their Plan, the limit to LIHEAP funding still restricts the number of customers who can enroll.

CUB recommends Plan approval notwithstanding CenterPoint's inadequate analysis of low- and moderate-income customer cost impacts. However, we suggest the Company be required to consider these impacts and provide a review in its first annual NGIA report filing of the steps it has taken or plans to take to reduce Plan costs on a wider scale to better include moderate-income customers.

2. <u>CenterPoint should prioritize the consideration of low- and moderate-income or disadvantaged communities for participation in Pilot I.</u>

In addition to requiring consideration of cost mitigation for low- and moderate-income customers, the NGIA also requires utilities to "ensure that low- and moderate-income residential customers benefit from innovative resources included in the plan."[78] Under this objective, the CEOs and CUB recommended that Pilot I for New Networked Geothermal Systems prioritize identification of low- and moderate-income or disadvantaged communities for project participation.[79] The Company noted it was reluctant to commit to targeting those communities, because "the most suitable sites from an engineering and technological perspective, or a customer preference perspective" might not align with those identified neighborhoods, and because the Company was hesitant to expose some of its most vulnerable customers to this new technology "before it has a track record of success, and before engaging any community members of candidate sites for input."[80]

First, CUB reiterates that our recommendation is not to require Pilot I's new networked geothermal system be installed in a disadvantaged or lower-income community, but to prioritize consideration of those areas during review of potential locations. If a feasibility study could not identify any potential areas for networked geothermal in those locations, CUB understands the Company would then move

income for home energy, primarily in meeting their immediate home energy needs.").

[75] Minn. Stat. § 216B.2402, Subd. 16(1).

[76] *See* National Energy and Utility Affordability Coalition, *Protect LIHEAP in 2021: Minnesota By the Numbers*, available at https://neuac.org/wp-content/uploads/2023/07/Minnesota-State-Sheet-2021.pdf.

[77] *Id.*

[78] Minn. Stat § 216B.2427, subd. 2(a)(13).

[79] CUB Initial Comments at 19; CEOs Initial Comments at 37-38.

[80] CenterPoint Reply Comments at 70.

on to investigate other places for pilot implementation.

Second, CUB appreciates CenterPoint's reasonable concern about possible impacts on vulnerable customers but does not believe that should bar customers from participation in innovative pilots under the Plan. Again, CUB's recommendation is to prioritize consideration of project siting in low- and moderate-income communities but not to require it. This exploration would include taking into account community input that could help address some of the reasonable concerns CenterPoint has raised. In addition to this outreach, we anticipate other possible guardrails to pilot impacts will be explored during CenterPoint's initial feasibility study. Similarly, CUB disagrees that the current uncommon use of networked geothermal in Minnesota should necessarily deter the Company from pilot implementation in disadvantaged communities.[81] CEOs recommended that CenterPoint provide an overview of how it will facilitate stakeholder engagement with chosen communities throughout the feasibility study, planning and modeling, and site selection process.[82] CUB supports this recommendation and believes early and open communication with community members will mitigate some of the concerns CenterPoint has raised regarding the novelty of the pilot.

### H. The Commission should clarify what Plan approval means and how that relates to recovery of NGIA costs.

In Initial Comments we expressed uncertainty about what the Commission's "approval" of the Company's NGIA Plan would mean at this stage.[83] In Reply Comments, the Company asserts:

> Plan approval provides authority for the Company to move forward with the pilots as described in the filing, subject to any modifications adopted by the Commission, and not be denied cost recovery solely because of the decision to move forward with implementing the Plan, including cost recovery with respect to pilot costs that are recovered or incurred beyond the five year term of the Plan.
>
> The NGIA statute provides that "prudently incurred costs under an approved plan . . . *are recoverable*" via one of the three identified recovery mechanisms. Consistent with the NGIA, all spending will be subject to review for prudence in subsequent cost recovery proceedings. . . . In these reviews, the Commission may find the Company acted imprudently in how it implemented approved pilots but should not find the Company imprudent solely for taking actions described in the approved NGIA plan. For example, CenterPoint Energy could be found imprudent for choosing unqualified vendors for pilot operation or if funds are otherwise mismanaged or wasted.[84]

We agree with the Company's description of what Commission approval means, with the understanding that the Company will retain the burden, at the cost-recovery stage, of showing funds approved for each pilot were spent prudently. We see risks where funds could be "mismanaged or wasted" if the Plan is not carefully executed. We are particularly concerned, for example, that the RFP

[81] *Id.* at 70.
[82] CEO Initial Comments at 38.
[83] CUB Initial Comments at 8.
[84] CenterPoint Reply Comments at 12-13 (emphasis in CenterPoint's comments; internal citations omitted).

proposed as part of Pilot C—by far the largest pilot in the Plan—could lead the Company to imprudently incur RNG at excessive costs or incur costs for unbundled environmental attributes that do not conform to the requirements or purpose of the NGIA. (We discuss our concerns about Pilot C in more detail below.) If the Commission approves this initial Plan, or a modified version thereof, we recommend the Commission clarify in its order what it expects of the Company in terms of demonstrating prudence in future cost-recovery proceedings.

## III. DISCUSSION OF PILOT-SPECIFIC RECOMMENDATIONS

### A. Pilot C should be reduced, not expanded.

As we noted in our initial comments, we are concerned about whether Pilot C will be conducted cost-effectively. In particular, building a pilot around meeting a minimum spending amount elevates the risk that the pilot will be executed in a manner that is not cost-effective.[85] We are concerned this approach creates a disincentive for the Company to negotiate lower RNG costs in the RFP process contemplated in Pilot C if doing so would cause the Company's entire NGIA Plan to fall below the 50 percent requirement.[86]

We also noted our skepticism that RNG exists (or may ever exist) in sufficient quantities to meaningfully replace fossil gas as a fuel source.[87] The Department similarly concludes "that there is very limited availability of RNG within Minnesota."[88] Even under optimistic conditions, the Coalition for Renewable Natural Gas ("a trade association for the renewable gas industry in the United States and Canada"[89]) projects that, by 2040, RNG could satisfy one, and only one, of the following:

- 32% of Minnesota's residential demand;
- 41% of commercial demand, or
- 27% of industrial demand for natural gas.[90]

Again, we are concerned that demand for a relatively scarce RNG supply may make it an expensive alternative to simply focusing on ways to reduce throughput of gas through conservation, electrification, and other means. We raise this skepticism not to suggest the Company should avoid RNG pilots entirely, but rather as further reason to limit the scope of Pilot C to test the usefulness, availability, and cost-effectiveness of RNG before the Company commits to multiple long-term

[85] CUB Initial Comments at 5-6.
[86] *See* Minn. Stat. 216B.2427 Subd. 2(d) ("the commission may not approve a utility's initial plan filed under this section unless 50 percent or more of the utility's costs approved by the Commission for recovery under the plan are for the procurement and distribution of [low-carbon fuels].")
[87] CUB Initial Comments at 7-9.
[88] Department Initial Comments at 34.
[89] Coalition for Renewable Natural Gas initial comments at 1.
[90] Coalition for Renewable Natural Gas, Reply Comments at 1.

contracts with RNG developers, particularly those that do not currently have RNG facilities in operation.

In Initial Comments, several parties recommended reducing the proposed budget for Pilot C, noting concerns similar to those raised by CUB.[91] In Reply Comments, the Company did the opposite. Instead of reducing Pilot C, the Company now proposes "reallocat[ing] the incremental cost reductions from Pilots A, B, D, H, and O to Pilot C."[92] This increased Pilot C's incremental costs over the five-year term of the Plan by $7,902,615, bringing Pilot C's updated costs counting against the total NGIA budget to $40,271,426.[93] According to the Company, these changes were proposed so that the "overall NGIA portfolio spending aligns closely with the statutory cost cap (in this case about $3,000 under the cost cap) and to ensure greater than 50 percent of Plan costs are for low-carbon fuels, as required under the NGIA statute."[94] Pilot C, alone, now accounts for approximately 42 percent of the total costs for the remaining 17 pilots, and around 38 percent of total NGIA Plan costs, including R&D projects.[95]

This change amplifies, rather than mitigates, our concerns about Pilot C. While we do not recommend that the Commission deny approval of Pilot C at this juncture, we believe some clarifications and modifications to it are warranted.

1. <u>Cost reductions for pilots not involving low-carbon fuels should not be rolled into Pilot C.</u>

To start, we do not believe it is appropriate or warranted to inflate the budget of Pilot C every time other pilots are reduced or rejected—particularly if the reduced or rejected pilot does not, itself, involve low-carbon fuels. There is no requirement that CenterPoint (or the Commission) maximize the Company's allowed budget under the NGIA statute, nor is there any legal need to reallocate costs from pilots *not* involving low-carbon fuels to ensure the initial Plan complies with the 50 percent requirement.[96] We recommend that the Commission reject the Company's proposal to reallocate cost reductions from Pilots A, B, D, H, and O to Pilot C.

[91] *See, e.g.,* Department Initial Comments at 35; CEO Initial Comments at 21; *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, Initial Comments of Office of the Attorney General at 8 (Jan. 16, 2024) (hereinafter "OAG Initial Comments").
[92] CenterPoint Reply Comments at 30.
[93] *Id.* at 31.
[94] *Id.* at 30.
[95] *Id.* at 32, Table 2.
[96] *See* Minn. Stat. § 2427 Subd. 2(d)(1) ("the commission may not approve a utility's <u>initial plan</u> filed under this section unless 50 percent or more of the utility's costs approved by the commission for recovery under the plan are for the procurement and distribution of [low-carbon fuels]" (emphasis added. Notably, if pilots involving low-carbon fuels are rolled out successfully in CenterPoint's first Plan, then it may be appropriate for CenterPoint to request the Commission's approval to scale up or expand those pilots in future plans. Notably, the 50 percent requirement only applies to a utility's initial plan.)

2. We continue to question whether procuring unbundled environmental attributes contributes to meeting the 50 percent requirement, or otherwise provides valuable learning opportunities.

In Initial Comments, we and others raised concerns about CenterPoint using Pilot C to purchase unbundled environmental attributes associated with RNG. We questioned whether purchases of environmental attributes would count toward the statutory requirement that 50 percent or more of Plan costs be used for "the procurement and distribution of" low carbon fuels if no actual commodity gas is procured through the purchase.[97] The CEOs and CUB also expressed skepticism about the learning value of purchasing unbundled environmental attributes associated with RNG.[98] We now also question whether, as a matter of law, unbundled environmental attributes qualify as "innovative resources"[99] that directly reduce "greenhouse gas emissions,"[100] as those terms are defined in the NGIA.

In reply, the Company asserts "there are significant learning opportunities associated with using newly developed systems in conjunction with the purchase of environmental attributes" without providing many details supporting that assertion.[101] While we appreciate CenterPoint's willingness to discuss this issue with us and explain more about how environmental attributes might be used in the context of its NGIA Plan, we continue to doubt the reasonableness of charging ratepayers for the procurement of unbundled environmental attributes in this context. We recommend that the Commission preclude CenterPoint from procuring unbundled environmental attributes through the RFP, or, at minimum, direct the Company to assign the lowest priority to purchasing unbundled environmental attributes through the RFP.

3. The Company should request bids for RNG procurement contracts with varying terms.

We also raised concerns about entering into multiple 10+ year procurement contracts through an experimental pilot when most of the Company's existing gas procurement currently occurs under contracts with much shorter terms. The Department identified similar concerns.[102] The Department recommended the Company identify three contract terms (5, 10, and 15 years) in its draft RFP and

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[97] *Id.*; CUB Initial Comments at 7.

[98] CEO Initial Comments at 21; CUB Initial Comments at 7.

[99] Minn. Stat. 216B.2427 Subd. 1(h) ("Innovative resource" means biogas, renewable natural gas, power-to-hydrogen, power-to-ammonia, carbon capture, strategic electrification, district energy, and energy efficiency.)

[100] Minn. Stat. § 216B.2427 Subd. 1(g) (defining "greenhouse gas emissions" as "emissions of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride emitted by anthropogenic sources *within Minnesota* and from the generation of electricity imported from outside the state and consumed in Minnesota, excluding carbon dioxide that is injected into geological formations to prevent its release to the atmosphere in compliance with applicable laws") (emphasis added).

[101] CenterPoint Reply Comments at 54-55.

[102] Initial Public Comments of the Minnesota Department of Commerce, Division of Energy Resources at 24 (Jan. 16, 2024) (hereinafter "Department Initial Comments").

develop a standard or model RNG contract to be used as an evaluation tool.[103] The Company accepted this recommendation, with some modifications. The Company now proposes the following:

> [T]he Company will include in the RFP a preference that bids be submitted for contract terms of 5, 10, and 15 year terms. If bidders are not willing or able to provide any of those options, the Company will request that they note "n/a" in their response for the contract length and provide details on their alternative contract length proposal.[104]

We generally agree with the Department's recommendations to improve the RFP process, though our concern about the Company entering into long term contracts remains, should the Company continue to accept bids for contracts with 10, 15, or other long terms. If the Commission adopts the Company's proposed modifications to its draft RFP, the Commission should make clear that CenterPoint will retain the burden to demonstrate that the RFP process is conducted prudently.

4. <u>The Company should prioritize, within reason, Minnesota-made RNG.</u>

The City of Minneapolis noted that there are good reasons to prioritize purchases of Minnesota-made RNG.[105] We agree for several reasons. To start, Minnesota-made RNG that directly reduces emissions of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride emitted by anthropogenic sources *within Minnesota* directly comports to the NGIA's definition of greenhouse gas emissions.[106] Local RNG production would also "promote local economic development" consistent with the NGIA statute.[107] Finally, local RNG production would amplify learnings for CenterPoint *and* local RNG developers, which could help inform the Commission and other stakeholders of the opportunities and challenges associated with local RNG production and distribution in the future. This would best support the NGIA's objective to learn more about RNG as an innovative resource that lowers GHG emissions.

In Reply Comments, CenterPoint clarifies: "[i]t is not a forgone conclusion that the Company will receive bids for four or more Minnesota sources of RNG through Pilot C and unlikely that all bids received will be for facilities located within the state."[108] The Company further states that, while it has "proposed to favor local RNG" in its RFP selection process, the "achievement of this objective may hinge on the success of initiatives such as the RNG Potential Study R&D Pilot, which is intended to identify RNG potential near the Company's distribution system[.]"[109]

Under other circumstances, we would suggest that the Company first complete the RNG Potential Study R&D Pilot *before* entering into a (proposed) $40 million+ RFP to purchase RNG under long-term

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[103] *Id*. at 25.
[104] CenterPoint Reply Comments at 49.
[105] *In the Matter of the Petition by CenterPoint Energy for Approval of its First Natural Gas Innovation Plan*, Docket No. G-008/M-23-215, City of Minneapolis Initial Comments at 3 (Jan. 16, 2024) (hereinafter "City of Minneapolis Initial Comments").
[106] Minn. Stat. § 216B.2427 Subd. 1(g).
[107] Minn. Stat. § 216B.2427, Subd. 2.
[108] CenterPoint Reply Comments at 25.
[109] *Id*.

contracts so as to maximize procurement of RNG from local sources. We understand, however, that time is of the essence in moving forward with testing innovative resources (and, again, that the Company's initial Plan must comply with the 50 percent requirement). We also understand that the Company may receive bids submitted from out of state that appear more cost-effective than bids from local developers, and we agree it is important to consider these cost comparisons when evaluating bids.

A good middle ground approach, in our view, would be for the Commission to approve a more modest budget for Pilot C so that it could move forward concurrently with the R&D Pilot. Once additional learnings are available from both the (reduced) Pilot C and the R&D Pilot, then it may be appropriate for the Company to request, and the Commission to approve, one or more additional RFPs for the purchase of RNG if the record supports that action. As the Company moves forward with its RFP, we recommend that the Company favor bids submitted by developers able to produce and distribute RNG locally, *so long as* such bids remain cost-effective. It will remain the Company's burden to demonstrate how it acted prudently when selecting certain bids and rejecting others.

Ultimately, CUB recommends that the Commission lower the approved budget for Pilot C to the lowest possible amount that would allow the Company to remain compliant with the 50 percent requirement. This number will be informed by and dependent on the Commission's modifications to or denials of other pilots included in the initial Plan.

### B. The Commission should reject Pilot D, because it is duplicative of an existing and ongoing Green Hydrogen pilot operated by CenterPoint and has unreasonable costs.

CUB and several other parties expressed concerns regarding Pilot D being duplicative of an existing Green Hydrogen blending pilot that CenterPoint is currently conducting in Minneapolis.[110] CenterPoint argues the new pilot is not duplicative due to the addition of on-site solar and hydrogen storage that will provide new learnings for the Company.[111] However, CUB continues to remain skeptical that the introduction of on-site solar and hydrogen storage will offer sufficient new findings to justify the high cost of the pilot, particularly when the existing Minneapolis pilot has yet to reach its expected performance targets and is still being studied and improved upon.[112] To CUB's knowledge, CenterPoint has yet to file any formal review of the existing Minneapolis pilot with the Commission, making it difficult for stakeholders, the public, and the Commission to evaluate the project's current progress and determine how this new proposed pilot would differ.

The Commission must also consider whether the cost of a proposed pilot is reasonable in light of projected GHG reductions. Pilot D represents the third most expensive pilot in terms of Estimated

[110] CUB Initial Comments at 3-5; CEO Initial Comments at 27-28; OAG Initial Comments at 7-8; Department Initial Comments at 40.
[111] CenterPoint Reply Comments at 56.
[112] *Id*.

Lifetime Utility Cost (approximately $23,053,705),[113] but ranks tenth in terms of Estimated Lifecycle GHG Reductions (only 27,993 metric Tons of CO2e).[114] While CUB appreciates the Company's readiness to explore a wide swath of innovative resources in this Plan, they must do so at a reasonable cost to customers.

Finally, CenterPoint also has an additional Green Hydrogen project proposal in Pilot E, so disallowance of Pilot D now does not eliminate the Company's opportunity to further explore green hydrogen technology through this Plan.[115] CUB therefore recommends that Pilot D be denied while CenterPoint focuses on its existing pilot. The Company should fully evaluate the lessons learned from its Minneapolis facility before proposing an additional Green Hydrogen blending project.

CenterPoint counts Pilot D's cost towards its calculation of the NGIA's 50 percent requirement that "50 percent or more of the proposed [plan] costs are for the procurement and distribution of renewable natural gas, biogas, hydrogen produced via power-to-hydrogen, and ammonia produced via power-to-ammonia." Eliminating Pilot D's proposal for hydrogen produced via power-to-hydrogen would impact the allowed cost cap if those costs are not reallocated to another low-carbon fuel pilot eligible to meet the 50 percent requirement. As noted above, CenterPoint has another Pilot proposal to encourage and implement new green hydrogen development in Minnesota, under Pilot E. CUB is supportive of Pilot E (with minor modifications described below) and recommends the estimated costs from Pilot D be reallocated to Pilot E. Moreover, CUB recommends the reallocated funds be specifically earmarked for green hydrogen projects within Pilot E. CenterPoint proposed Pilot E as a project for Industrial or Large Commercial Hydrogen and/or Carbon Capture incentives.[116] CenterPoint has not yet identified specific customers or projects for Pilot E but forecasts the costs for completing two projects over the course of the five-year Plan.[117] Because CenterPoint does not currently commit to either a green hydrogen project or a carbon capture project under Pilot E, and because only hydrogen produced via power-to-hydrogen counts towards the 50 percent requirement, reallocated funds from Pilot D cannot be used for carbon capture in Pilot E and should be earmarked for green hydrogen projects only. This will not only ensure the cost cap remains the same, but that the funds from Pilot D remain used for hydrogen produced via power-to-hydrogen.

### C. CUB supports Pilot E with the CEOs' minor modification to require a minimum level of estimated Dth savings for participation in the power-to-hydrogen project.

CUB generally supported CenterPoint's proposed Pilot E in Initial Comments, but recommended the Company prioritize projects for the decarbonization of industrial facilities that are not amenable to electrification, rather than large commercial operations that do not need to rely on hydrogen to

[113] *Id.* at Exhibit A, p. 2.
[114] *Id.* at 32.
[115] *Id*. at 59-60.
[116] CenterPoint NGIA Plan, Exhibit D at 15.
[117] *Id*., Exhibit D at 16.

decarbonize their operations.[118] The CEOs similarly sought to ensure Pilot E remained cost-effective and recommended projects require a minimum amount of estimated Dth savings to be eligible for participation.[119] We support the CEOs' recommendation and believe it would help alleviate our concerns and allow for prioritization of investments that can help achieve optimal GHG emission reduction levels in Pilot E.

As noted above, CUB also recommends earmarking the additional costs reallocated from Pilot D for specifically green hydrogen projects in Pilot E. This will be required for CenterPoint to remain at the current proposed cost cap, as the alternative carbon capture projects proposed under Pilot E do not count towards the NGIA's 50 percent requirement.

### D. The Commission should reject Pilot G because it fails to provide emissions reductions in the manner prescribed by statute.

CUB did not take a position on CenterPoint's Urban Tree Carbon Offset Pilot ("Pilot G") in Initial Comments. However, after reviewing the positions of other parties, we find the Company's proposal falls short of the statutory requirements for carbon capture and should not be approved by the Commission.

Through Pilot G, CenterPoint proposes to purchase 4,500 carbon offset credits from tree planting partners across the Twin Cities Metro area.[120] We share the Department's and CEOs' concerns that the Company's use of carbon offsets does not comport with the purpose or function of NGIA.

NGIA allows carbon capture technologies to be included as an innovative resources in utilities' proposed Plans.[121] However, the statutory definition of "carbon capture" narrowly envisions the use of resources or technologies that "capture . . . greenhouse gas emissions that would otherwise be released into the atmosphere."[122] While planting trees will draw *already emitted* carbon out of the atmosphere, it does not reduce, eliminate, or capture emissions prior to them being released.[123] In responding to the Department and CEOs on this issue, CenterPoint appears to agree with this perspective, stating that "trees will capture carbon that would otherwise *remain released* in the atmosphere."[124] Planting trees would not prevent those emissions from occurring in the first place. Instead, the offsets would enable CenterPoint to continue its current rate of emissions output while claiming its carbon impact has been lowered.

Second, it is our understanding that the carbon offsets CenterPoint seeks to purchase are for trees planted between 2019 and 2021.[125] As extensively detailed by the Department, the fact that these

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[118] CUB Initial Comments at 3.
[119] CEO Initial Comments at 30-31.
[120] CenterPoint NGIA Plan, Exhibit D at 20-21.
[121] Minn. Stat. § 216B.2427, Subd. 1(h).
[122] Minn. Stat. § 216B.2427, Subd. 1(c).
[123] *See*, *e.g.*, CEO Initial Comments at 32.
[124] CenterPoint Reply Comments at 64.
[125] *See* Department Initial Comments at 46.

trees were already planted means that benefits will accrue to customers regardless of whether the Company purchases the offsets.[126] No new emissions reductions will be generated that did not already exist prior to pilot development. CenterPoint rebuts this claim by suggesting the trees would not be planted but for the partners' involvement in carbon offset programs.[127] However, even though participation in carbon offset programs may support future tree planting efforts, Pilot G itself does not contribute to the planting of any additional trees. For these reasons, we recommend the Commission deny Pilot G as proposed.

### E. The Commission should reject Pilot H, because the Company has not shown the proposed carbon capture measures cannot reasonably be pursued through ECO.

CenterPoint's proposal to continue its planned investment in CarbinX units is inconsistent with the statutory requirement to refrain from pursuing technologies in NGIA that could reasonably be included in ECO.[128] As CUB explained in Initial Comments, the Company is already evaluating CarbinX performance through ECO R&D projects.[129] This ongoing exploration of the carbon capture technology is designed to assess energy savings opportunities and determine the appropriateness of expanded ECO deployment.[130] In other words, CenterPoint "has previously supported," and continues to support, the inclusion of CarbinX units in its ECO portfolio.[131] In addition to CUB, both the Department and CEOs expressed concerns about the overlapping nature of the Company's carbon capture pilots, and recommended rejection of Pilot H.[132] Because CenterPoint's Reply Comments do not adequately assuage our concerns about project duplication and overlap with ECO, we recommend the Commission reject Pilot H.

CenterPoint seeks to delineate the CarbinX pilots by focusing on how NGIA provides a "pathway to claim carbon capture savings from the units" that is unavailable in ECO.[133] As a result of these program differences, the Company recommends providing both "a CIP/ECO incentive for energy savings and an NGIA incentive for the carbon capture component."[134] As explicitly outlined in Minn. Stat. § 216B.2427, subd. 1(f) and (q)(2), investments reasonably capable of being pursued through ECO should not be incorporated into a utility's innovation plan. While certain exceptions exist—such as for statutorily required program offerings—none apply to carbon capture rebates. Producing both energy efficiency savings and emissions reductions is, alone, an insufficient basis to overcome this statutory restriction.

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[126] *Id*.
[127] CenterPoint Reply Comments at 65-66.
[128] *See*, *e.g.*, Minn. Stat. § 216B.2427, subds. 1(f); 1(q)(2).
[129] CUB Initial Comments at 10.
[130] *Id.* (citing *In the Matter of CenterPoint Energy's 2022 Gas Energy Conservation and Optimization Report*, Docket No. G-008/CIP-20-478, CenterPoint 2022 ECO Compliance Report at 53 (May 1, 2023)).
[131] Department Initial Comments at 47.
[132] *Id*. at 5, 46-48; *see also* CEO Initial Comments at 33.
[133] CenterPoint Reply Comments at 68.
[134] *See* CenterPoint Response to DOC-037(d) (attached as Ex. DOC-037).

## IV. CONCLUSION

Again, CUB appreciates the significant amount of time and effort CenterPoint has put into preparing its NGIA Plan. We hope our comments and recommendations above help further improve the proposals included therein. In summary, CUB recommends the Commission take the following actions with respect to CenterPoint's NGIA Plan:

<u>GHG Emission Reduction Goals</u>

1. Require the Company to provide, in its Minnesota Net Zero Study, an estimation of the Company's role in producing GHG emissions in Minnesota and a description of how the Plan, as a whole, helps the Company reduce GHG emissions: (1) in proportion to the emissions associated with CenterPoint's service, and (2) according to the timeline and incremental goals established by the Legislature.

2. Replace the first and second "Environment" cost-effectiveness objectives with a single objective that specifies the plan achieves or makes meaningful progress toward achieving Company-wide emission reductions of at least 30% by 2029, relative to the Company's 2020 baseline.

<u>25 Percent Variance Request</u>

3. Deny CenterPoint's request for a 25 percent variance and require budget modification requests be proposed in annual report filings for Commission review.

OR

4. Approve CenterPoint's request for a 25 percent variance subject to the following restrictions:

    a. Prohibit using the variance to reduce any singe pilot budget by more than 25 percent.

    b. Require any budget increases or decreases exceeding 25 percent to go through the annual review process. The Company's annual review filing must identify any avenues that could be taken to increase enrollment or improve performance of underperforming pilots and provide a justification for why these options are not reasonable.

    c. Require the Company to explain how budgets were modified and why such modifications were warranted in annual review filings.

    d. Prohibit using the variance until the third year of the Plan in order to provide sufficient time for pilots to reach maturity and enroll participants.

e. Prohibit using the variance to reduce the budgets of pilots that are performing at the cost and emissions reductions levels identified in the Plan proposal.

f. Require the Company to conduct a wide-ranging analysis of pilot performance that takes into account both participation levels and realized cost-effectiveness when determining whether the variance can be employed to alter pilot budgets.

<u>Cost-Effectiveness Objectives</u>

5. Require the Company to file a compliance filing with updated cost-effectiveness objectives within 30 days of the Commission issuing its Order approving the Plan, subject to a 30-day negative check-off. If no parties raise disagreements with the updated objectives within 30 days of the Company's filing, the comment period will close and the cost-effectiveness objectives will go into effect. If any filed comments raise contested issues, the Commission will issue a Notice of Comment and the matter will be brought to an agenda meeting.

6. Reject CenterPoint's request to evaluate cost-effectiveness based on the "majority" of objectives being met.

7. Adopt a holistic evaluation methodology for reviewing Plan cost-effectiveness.

<u>Annual NGIA Report Filings</u>

8. Approve CenterPoint's proposal to file annual status reports in June and include data from the prior calendar year.

9. Require CenterPoint to provide updates on IRA implementation and pilot-specific data on GHG emissions reductions in annual status report filings.

10. Require CenterPoint to provide relevant information from AAA reports and monthly PGA filings to facilitate review of PGA cost recovery in annual status report filings.

<u>Low- and Moderate-Income Customer Impacts</u>

11. Require CenterPoint to consider cost impacts to low- and moderate-income customers and provide a review of these impacts in its first annual NGIA report filing. The Company must detail the steps it has taken or plans to take to reduce plan costs on a wider scale to account for both low- and moderate-income customers.

12. Require CenterPoint to prioritize consideration of disadvantaged and lower-income communities when reviewing potential locations for Pilot I's new networked geothermal system.

13. Require CenterPoint to provide an overview of how it will facilitate stakeholder engagement with chosen communities throughout the feasibility study, planning and modeling, and site selection process for Pilot I.

Cost Recovery

14. The Commission should clarify in its written order what it expects of the Company in terms of demonstrating prudence in future cost-recovery proceedings.

Pilot-Specific Recommendations

15. Reject the Company's proposal to reallocate cost reductions from Pilots A, B, D, H, and O to Pilot C.

16. Preclude CenterPoint from procuring unbundled environmental attributes through the Pilot C RFP.

OR

17. Direct the Company to assign the lowest priority to purchasing unbundled environmental attributes through the Pilot C RFP.

18. Direct the Company to request bids for RNG procurement contracts with varying terms, as proposed by the Department and modified by CenterPoint.

19. Direct the Company to prioritize purchases of Minnesota-made RNG over RNG produced and used elsewhere, so long as such bids remain cost-effective.

20. Lower the approved budget for Pilot C to the lowest possible amount that would allow the Company to remain compliant with the NGIA's 50 percent requirement for alternative fuels.

21. Reject Pilot D.

22. Reallocate funds from Pilot D to green hydrogen projects in Pilot E.

23. Approve Pilot E, subject to the development of a minimum Dth savings threshold for project inclusion.

24. Reject Pilot G.

25. Reject Pilot H.

26. Approve Pilot I (subject to CUB recommendation 13, above)

27. Approve Pilot L.

28. Approve Pilot M.

29. Approve Pilot N.

30. Approve Pilot O (subject to CUB recommendation 15, above).

31. Approve Weatherization Blitz R&D project.

32. Approve Minnesota Net Zero Study R&D project.

Sincerely, May 15, 2024

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cc: Service List