

Staff Briefing Papers

Meeting Date January 9, 2019 Agenda Item *6

Company CenterPoint Energy Resources Corp., d/b/a/ CenterPoint Energy Minnesota Gas (CPE, CenterPoint Energy, Company)

Docket No. **G-008/M-19-558**

In the Matter of the Petition of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy) for Acceptance of its Annual Revenue Decoupling Report for the One-year Period Ending on June 30, 2019 and Approval of its Revenue Decoupling Mechanism Rate Adjustment

Issues Should the Commission accept CenterPoint Energy’s annual revenue decoupling report for the evaluation period ending on June 30, 2019 and approve CenterPoint Energy’s revenue decoupling rate adjustments?

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Relevant Documents

Date

CenterPoint Energy – 2019 Revenue Decoupling Report (Letter, Report and Supporting Spreadsheets)	September 3, 2019
Minnesota Department of Commerce - Comments	October 31, 2019
CenterPoint Energy – Reply Comments	November 14, 2019

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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.

I. Statement of the Issues

Should the Commission accept CenterPoint Energy's annual revenue decoupling report for the evaluation period ended June 30, 2019 and approve CenterPoint Energy's revenue decoupling rate adjustments?

II. Introduction

This is the Commission's fourth annual review of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas' (CenterPoint Energy's, CPE's or the Company's) full-decoupling pilot program that was initially approved in the Company's 2013 rate case.¹ Prior to this full-decoupling pilot, the Company had a partial-decoupling pilot that ended on June 30, 2013. In CPE's 2017 General Rate Case, the Company was authorized to implement a modification to the full revenue decoupling formula in the rider.²

The Company and the Department of Commerce, Division of Energy Resources (Department or DOC) are in agreement on recommending that the Commission:

1. Accept CenterPoint Energy's 2019 Evaluation Report (Report).
2. Approve CenterPoint Energy's revenue decoupling rate adjustments shown in Table 1 below, which were implemented by CenterPoint Energy on September 1, 2019.

Table 1: Revenue Decoupling Factors for CenterPoint Energy's Decoupled Customer Classes – Surcharge/(Refund) per Therm³

Customer Class	RD Factor (\$/Therm)
Residential	(\$0.01832)
Com-A	(\$0.01403)
Com-Ind B	(\$0.01046)
Com-Ind C	(\$0.01279)
SVDF-A	(\$0.01487)
SVDF-B	(\$0.00706)
LVDF-STD	\$0.00262
LV-FIRM	(\$0.00672)

¹ Docket G-008/GR-13-316

² Docket G-008/GR-17-285, March 7, 2018 Offer of Settlement, page 26.

³ Docket No. G-008/M-19-558, Department Comments, October 31, 2019, page 17

III. **Background**

A. Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

- A. Reduce CenterPoint Energy's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.
- B. Achieve energy savings, and
- C. Not harm ratepayers.

B. Pilot Revenue Decoupling Program

On September 3, 2019, CenterPoint Energy filed its Year 4 Decoupling Evaluation Report (Report) for the period of July 1, 2018 to June 30, 2019. The Report included supporting data and calculations for the revenue decoupling adjustment factors that, beginning September 1, 2019, have been applied to ratepayers' bills.

On October 31, 2019, the Department filed comments that included a review of CenterPoint Energy's energy savings that resulted from its Conservation Improvement Program (CIP) and resulted in a recommendation that the Report be accepted and the revenue decoupling factors, which were implemented on September 1, 2019, be approved.

On November 14, 2019, CenterPoint Energy filed reply comments. The Company stated that it appreciated the Departments review and analysis and supports the recommendation that the Commission accept the fourth Decoupling Evaluation Report and approve the decoupling refund adjustments for July 2018-June 2019 that were implemented on September 1, 2019. Additionally, CenterPoint Energy affirmed that it "supports future discussions with interested stakeholders to explore if there are parts of the evaluation report that can be eliminated or streamlined for administrative efficiency purposes, and to present modified requirements for future evaluation reports to the Commission".

IV. **Parties' Comments**

A. CenterPoint Energy – Evaluation Report

On October 31, 2019, CenterPoint Energy submitted its fourth annual report covering the year of July 1, 2018 through June 30, 2019. The Company stated that, as a result of higher than anticipated consumption due to colder weather, CPE over-collected \$20,627,435 during the reporting period. Additionally, the Company under-collected the previous year's RDM by \$1,723,045. Thus, the total amount to be refunded in the upcoming year is \$18,904,390. A summary of amounts to be surcharged/(refunded), by class, is provided in Table 2:

Table 2 - Decoupling Adjustment Balance through June 30, 2019⁴

Class	Decoupling Adjustment Balance through June 30, 2018	Adjustment Made to Reflect 10% Cap	Prior Period Balance	Adjusted Balance
Residential	(\$13,774,109)		\$924,958	(\$12,849,151)
Commercial A	(\$358,662)		\$13,439	(\$345,223)
Commercial & Industrial B	(\$676,681)		\$92,531	(\$584,150)
Commercial & Industrial C	(\$4,954,043)		\$702,761	(\$4,251,282)
SVDF A	(\$776,992)		\$3,539	(\$773,453)
SVDF B	(\$353,711)		\$4,963	(\$348,748)
LVDF	\$365,444		\$16,634	\$382,078
Large Volume General Firm	(\$98,681)		(\$35,779)	(\$134,460)
Total	(\$20,627,435)	\$0	\$1,723,045	(\$18,904,390)

For the evaluation year, residential customers' actual consumption was 98.5 dekatherms, while the weather-normalized anticipated consumption was 89.0 dekatherms. The higher-than-anticipated usage represented an additional 4.3 million dekatherms. For the year, the residential class' \$12.8 million refund translates into \$16.30 per customer or, as shown in Table 3, \$1.36 per month.

Table 3 - Decoupling Adjustment Factors and Average Monthly Impact⁵

Class	Decoupling Adjustment per Therm	Average Monthly Use (in Therms)	Average Monthly Decoupling Adjustment
Residential	(\$0.1832)	74	(\$1.36)
Commercial A	(\$0.1403)	68	(\$0.95)
Commercial & Industrial B	(\$0.1046)	245	(\$2.56)
Commercial & Industrial C	(\$0.1279)	1,437	(\$18.37)
SVDF A	(\$0.1487)	3673	(\$54.60)
SVDF B	(\$0.0706)	14,784	(\$104.42)
LVDF	\$0.0262	136,667	\$178.01
Large Volume General Firm	(\$0.0672)	453,300	(\$311.52)

Regarding conservation, CenterPoint Energy stated that, when compared to the 2007-2009 pre-decoupling period, 2018 energy savings increased by 129% (Table 4 below) and Conservation Improvement Program (CIP) expenditures increased by 302% (Table 7 below).

⁴ CenterPoint Energy, Petition, Table D-1, page 37

⁵ CenterPoint Energy, Petition, Table D-8, page 41

B. Department of Commerce – Comments

The Department recommended that CenterPoint Energy's Evaluation Report be accepted and the Company's annual decoupling adjustments be approved. As listed below, the DOC's filing also provided analysis of several subjects.

1. Decoupling's Impact on CenterPoint Energy's Increase in Energy Savings

As it has in previous years, the Department noted that, during both CenterPoint Energy pilots, the Company's energy savings did increase; however, the DOC concluded that these savings were not solely due to decoupling. The Department listed the following factors as possible contributors to the achieved energy savings:

- Minnesota adopted an energy savings goal of 1.5% of retail sales.
- The Shared Savings Demand Side Management (DSM) Financial Incentive was increased for utilities to encourage them to work towards and surpass the State energy savings goal. CenterPoint Energy received annual CIP financial incentives averaging more than \$9 million over the RD program periods.
- Federal tax incentives to encourage homeowners to make energy-efficient investments in their home were in effect during this time, and
- Customers became more aware of energy conservation in general.

2. Level of Energy Savings

As shown in Table 4, CenterPoint Energy's 2018 energy savings achievements were somewhat lower than that achieved in 2017. Compared to the 2007-09 average, for 2018, all three customer classes had higher energy savings.

Table 4 - CenterPoint Energy Historical First-Year CIP Energy Savings (Dth) for Residential, Low-Income Residential, and Commercial and Industrial Customer Classes⁶

Year/Period	Residential	Low-Income	Commercial and Industrial	Overall Program
2007-09 Average	203,100	16,199	644,424	863,723
2010	267,137	15,243	1,017,848	1,300,228
2011	467,107	14,693	1,004,431	1,486,231
2012	496,194	13,510	820,814	1,330,518
2013	515,946	17,075	1,037,790	1,570,810
2014	648,482	21,986	1,031,248	1,701,716
2015	682,540	36,937	1,132,452	1,851,930
2016	671,984	14,250	1,312,399	2,006,014
2017	554,411	32,397	2,045,737	2,632,546
2018	680,478	28,919	1,271,137	1,980,534
2018 Percent Change from 2007-2009 Average	235%	79%	97%	129%

Table 5 below shows how each customer category contributed to the Company's increase in energy savings between 2018 and the 2007-2009 average.

Table 5 - 2018 CenterPoint Energy CIP Energy Savings increase over 2007-2009 CIP Energy Savings Average, by class⁷

Customer Class	Residential	Low-Income	Commercial and Industrial	Total
Energy Savings Increase (Dth)	477,378	12,720	626,713	1,116,811
Customer Class Energy Savings – Share of Increase as a Percentage of Total Increase	43%	1%	56%	

⁶ Minnesota Department of Commerce Comments, October 31, 2019, Table 1, page 6

⁷ Minnesota Department of Commerce Comments, October 31, 2019, Table 2, page 7

As summarized in Table 6, CenterPoint Energy's energy savings, as a percent of 20-year weather-normalized retail sales, increased from 0.54% in 2007 to 1.38% in 2018.

Table 6 – CenterPoint Energy's CIP Energy Savings as a Percent of Weather-Normalized Sales⁸

CIP Plan Period	Year	Applicable Three-Year Average 20-Year Weather Normalized Sales (Dth)	Annual Energy Savings (Dth)	Energy Savings as a Percent of Sales
2007-2008 Biennial Period	2007	154,110,813	825,030	0.54%
	2008	154,110,813	827,340	0.54%
Extension of 2007-2008 Biennial	2009	154,110,813	938,798	0.61%
2010-2012 Triennial Period	2010	150,775,872	1,300,228	0.86%
	2011	150,775,872	1,486,231	0.99%
	2012	150,775,872	1,330,518	0.88%
2013-2015 Triennial Period	2013	139,161,784	1,570,810	1.13%
	2014	139,161,784	1,701,716	1.22%
	2015	139,161,784	1,851,930	1.33%
Extension of 2013-2015 Triennial	2016	139,161,784	2,006,014	1.44%
2017-2019 Triennial Period	2017	143,628,146	2,632,546	1.83%
	2018	143,628,146	1,980,534	1.38%

The Department commended CenterPoint Energy for its 2018 CIP performance. As in previous years, the Department attributed energy savings to the following factors:

- the level of first-year energy savings;
- the different lifetimes of the mix of energy savings achieved each year (for example, large commercial and industrial projects generally have longer lifetimes; even if CPE achieved the same first-time energy savings in two years, the lifetime energy savings for CIP achievements can be higher if there is a higher concentration of longer term projects in the portfolio of CIP projects); and
- changes in lifetime assumptions between triennial CIPs (*e.g.*, the assumed lifetime for behavioral change projects is lower now than when these programs were first introduced).

The Department noted that the third factor makes it difficult to compare changes in lifetime energy savings between triennial CIPs; however, based on the assumptions used at the time for

⁸ Minnesota Department of Commerce Comments, October 31, 2019, Table 3, page 8. At the request of the Department, CenterPoint used both 10-year and 20-year normal weather when analyzing the efficacy of its conservation programs. Since the Commission has approved revenue decoupling adjustments for two gas utilities (and one electric utility) that estimated rate case sales figures based on 20-year normal weather, the Department shows the 20-year normal format here. Using the 10-year weather-normalized figures, CenterPoint's 2018 energy savings equaled 1.40 percent of retail sales.

each CIP triennial, CenterPoint Energy's 2018 lifetime energy savings were 106% higher than the Company's 2007-2009 energy savings.

To put CenterPoint Energy's savings in context, the Company's average residential customer annually uses approximately 89 Dth on average.⁹ In 2018, CPE's lifetime energy savings were 25.0 million Dth. Consequently, the Company's 2018 lifetime energy savings were enough to provide natural gas service to almost 281,500 residential customers for a year.

3. Energy Savings Expenditures

In Table 7, the Department showed that CenterPoint Energy's 2018 CIP expenditures were more than quadruple its pre-decoupling annual CIP expenditures.

Table 7 - Comparing 2017 CIP Expenditures with Average of Pre-Decoupling (2007-2009) CIP Expenditures

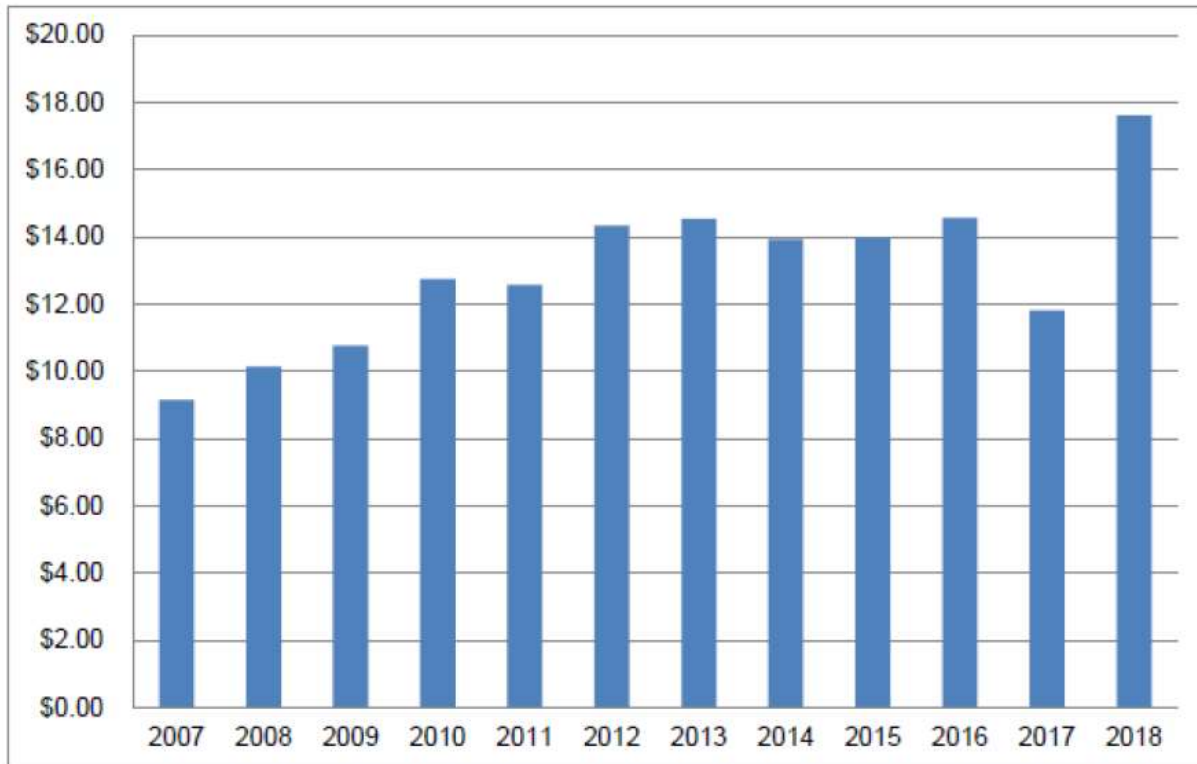
Year/Period	Residential	Low-Income	Commercial and Industrial	Other Projects	Overall Program
2007-09 Average	\$2,731,997	\$1,787,613	\$3,722,836	\$444,749	\$8,687,195
2010	\$7,861,852	\$2,121,325	\$5,886,263	\$705,297	\$16,574,737
2011	\$10,715,062	\$1,867,663	\$5,360,144	\$771,054	\$18,713,923
2012	\$10,801,865	\$1,977,250	\$5,278,953	\$1,033,732	\$19,091,800
2013	\$12,868,507	\$2,915,754	\$5,875,196	\$1,170,253	\$22,829,710
2014	\$14,054,870	\$2,207,285	\$6,314,013	\$1,125,353	\$23,701,520
2015	\$15,397,531	\$2,665,523	\$6,833,760	\$996,804	\$25,893,618
2016	\$17,546,421	\$2,701,799	\$7,873,273	\$1,107,040	\$29,228,533
2017	\$15,811,617	\$3,429,092	\$10,619,783	\$1,279,602	\$31,140,094
2018	\$19,318,054	\$3,792,484	\$9,336,812	\$2,440,970	\$34,888,321
2018 Percent Change from 2007-2009 Average	607%	112%	151%	449%	302%

⁹ 89 Dth is the Authorized use per customer.

4. Changes in Cost per Dth Saved

As shown in Figure 1, CenterPoint Energy's 2018 first-year energy savings cost was the highest ever at \$17.62/Dth, or 75.7% higher than the pre-decoupling average of \$10.03/Dth.

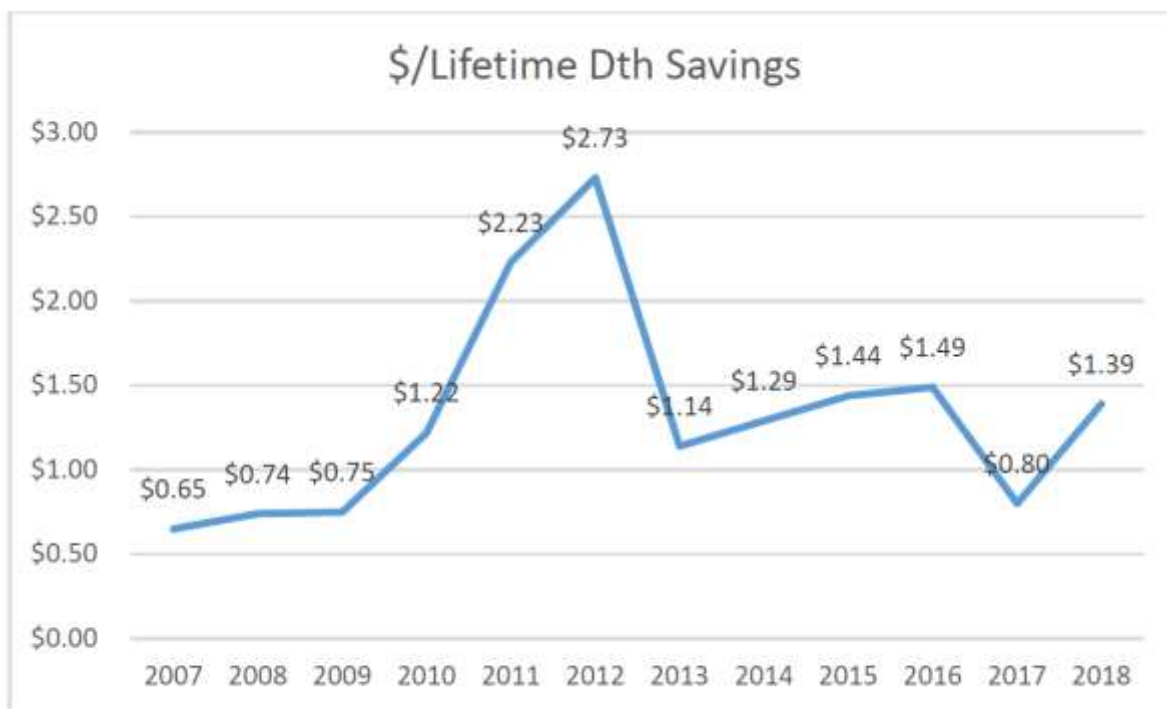
Figure 1: CenterPoint Energy's Cost per Dth for First-Year Energy Savings¹⁰



¹⁰ Minnesota Department of Commerce Comments, October 31, 2019, Figure 4, page 12

As shown in Figure 2, CenterPoint Energy's cost per lifetime energy savings peaked in 2012, declined significantly in 2013 and then began to rise again, before dropping again in 2017 and rebounding in 2018. 2016-2018 lifetime energy savings cost an average of \$1.23/Dth as compared to \$0.71/Dth for the pre-decoupling 2007-2009 period.

Figure 2: Cost of Lifetime Energy Savings Created Through Annual CIP Achievements (\$/Dth)¹¹



5. Under/Over Recovery of Revenues

Colder than normal weather conditions resulted in (under)/over-recoveries of revenue shown in Table 8 below.

Table 8: Calculation of Over (Under Recovery) for Evaluation Period of July 1, 2018, to June 30, 2019

Customer Class	UPC - Actual	UPC Authorized	Actual Rev/Customer	Authorized Rev/Customer	Non-Gas Margin Cap	YTD Net Under(Over)		10% Cap	Decoupling Revenue
Residential	98.5	89.0	\$297.92	\$280.21	\$226,581,831	(\$13,774,109)	-6.1%	\$22,658,183	(\$13,774,109)
Com- A	88.2	81.2	\$346.13	\$333.03	\$9,473,473	(\$358,662)	-3.8%	\$947,347	(\$358,662)
Com-Ind B	318.7	294.0	\$721.35	\$684.88	\$13,939,521	(\$676,681)	-4.9%	\$1,393,952	(\$676,681)
Com-Ind C	1,918.1	1,726.8	\$3,062.03	\$2,813.25	\$63,401,654	(\$4,954,043)	-7.8%	\$6,340,165	(\$4,954,043)
SVDF-A	5,097.2	4,402.6	\$5,772.91	\$5,094.57	\$5,654,521	(\$776,992)	-13.7%	\$565,452	(\$776,992)
SVDF-B	19,639.1	17,702.7	\$18,059.13	\$17,233.42	\$3,629,832	(\$353,711)	-9.7%	\$362,983	(\$353,711)
LVDF - STD	77,624	81,136	\$47,223.71	\$48,820.34	\$10,227,331	\$365,444	3.6%	\$1,022,733	\$365,444
LV- FIRM	60,727	55,551	\$39,187.68	\$36,831.00	\$1,622,215	(\$98,681)	-6.1%	\$162,222	(\$98,681)

¹¹ Minnesota Department of Commerce Comments, October 31, 2019, Figure 5, page 13

The Department noted that no customer class was impacted by the 10 percent cap on surcharges during the 2018 evaluation period.

6. Decoupling Adjustment Calculation

As illustrated in Table 9, over the two full revenue decoupling periods, CenterPoint Energy's RD Rider has resulted in:

- Before cap net refunds of \$34,027,437.
- Reductions due to 10% cap of \$0.
- Total after cap net refund of \$34,027,437.

Table 9: CenterPoint Energy's Revenue Decoupling Calculations¹²

Customer Class	2017-2018 Evaluation Plan			2018-2019 Evaluation Plan		
	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap
Residential	(\$7,696,177)	(\$7,696,177)	\$0	(\$13,774,109)	(\$13,774,109)	\$0
Commercial A	(\$525,740)	(\$525,740)	\$0	(\$358,662)	(\$358,662)	\$0
Commercial & Industrial B	(\$611,851)	(\$611,851)	\$0	(\$676,681)	(\$676,681)	\$0
Commercial & Industrial C	(\$3,584,070)	(\$3,584,070)	\$0	(\$4,954,043)	(\$4,954,043)	\$0
SVDF A	(\$457,050)	(\$457,050)	\$0	(\$776,992)	(\$776,992)	\$0
SVDF B	(\$54,001)	(\$54,001)	\$0	(\$353,711)	(\$353,711)	\$0
LVDF	(\$416,452)	(\$416,452)	\$0	\$365,444	\$365,444	\$0
Large Volume General Firm	(\$54,931)	(\$54,931)	\$0	(\$98,681)	(\$98,681)	\$0
Total	(\$13,400,002)	(\$13,400,002)	\$0	(\$20,627,435)	(\$20,627,435)	\$0

For the first four full revenue decoupling periods, CenterPoint Energy's RD Rider has resulted in:

- Before cap net surcharges of \$13,341,122.
- Reductions due to 10% cap of \$782,672.
- Total after cap net surcharges of \$12,558,450.

7. Department Recommendations

The Department recommended CenterPoint Energy's 2019 Decoupling Evaluation Report be accepted and that the adjustment factors shown in Table 2 (on page 3 of the briefing papers) be approved (their implementation began effective September 1, 2019).

¹² Minnesota Department of Commerce Comments, October 31, 2019, Table 9, page 16

V. Staff Analysis

Staff verified the decoupling adjustment factor calculations and concurs with the Department's recommendations to accept the Evaluation Report and implement the adjustment factors.

Staff notes that the Department, in a recent revenue decoupling docket¹³, has stated that evaluation reports are quite extensive:

In recent years, the Department has primarily focused on the part of the evaluation report that focuses on the utilities' CIP energy savings achievements because Minnesota Statutes § 216B.2416, subd. 1 states that the purpose of decoupling is to reduce a utility's disincentive to promote energy efficiency. No other party has been commenting on other parts of the evaluation plans. For administrative efficiency the Department will consult with the utilities that have decoupling and Commission Staff to see if there is an agreement on whether there are parts of the evaluation reports that can be eliminated, and if so, present proposed reporting requirement modifications for future evaluation reports to the Commission.

Staff supports this Department suggestion that the revenue decoupling reporting format could benefit from simplification and noted that, in its informal order in Minnesota Energy Resources Corporation's recent revenue decoupling docket,¹⁴ the Commission "required MERC to work with the Department and other stakeholders, and to request the involvement of other utilities, on the development of a more streamlined Annual Evaluation Report". The Commission may wish to ask utilities subject to revenue decoupling to participate with the Department and Commission staff in developing a process and plan to review evaluation reporting requirements.

VI. Decision Alternatives

2019 Annual Decoupling Evaluation Report

1. Accept CenterPoint Energy's 2019 revenue decoupling evaluation report. (CPE, DOC) **OR**
2. Reject CenterPoint Energy's 2019 revenue decoupling evaluation report.

Annual Decoupling Adjustment Factors

3. Approve CenterPoint Energy's revenue decoupling adjustment factors. (CPE, DOC) **OR**
4. Reject CenterPoint Energy's revenue decoupling adjustment factors and determine what the alternative factors should be.

¹³ Docket No. G-011/M-19-201, Department Comments, September 10, 2019, page 7.

¹⁴ Ibid, Informal Order, Ordering Point 4, December 5, 2019.

Future Changes to the Evaluation Report

5. Request CenterPoint Energy to work with the Department and other stakeholders on the development of a more streamlined Annual Evaluation Report. (*DOC*) **AND**
6. Require CenterPoint Energy to make a compliance filing detailing proposed changes, if any, to the Annual Revenue Decoupling Evaluation Report format by July 31, 2020 (*Staff*)