MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	**July 11, 2024**	**Agenda Item 2****
Company	CenterPoint Energy Minnesota Gas	
Docket No.	G-008/M-24-150	
	In the Matter of CenterPoint Energy Minnesota Gas' Proposal of Commodity Smoother in AAA/True-up	
Issues	Should CenterPoint Energy Minnesota Gas' Petition be approved?	

Staff	Andrew Larson	andrew.m.larson@state.mn.us	651-201-2259

✓ Relevant Documents	Date
CenterPoint Energy – Initial Filing	April 3, 2024
Department of Commerce – Comments	April 30, 2024
CenterPoint Energy – Reply Comments	May 13, 2024

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I. STATEMENT OF THE ISSUES

Should CenterPoint Energy Minnesota Gas' Petition be approved?

II. BACKGROUND

A. Docket Filings

On April 3, 2024 CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy, Company) proposed a new Purchased Gas Adjustment (PGA) factor, the "Commodity Smoother", that would true-up commodity costs within its monthly PGA filings with a two-month lag (Petition).

On April 30, 2024 the Department of Commerce (Department), on the basis that it is not beneficial to rate payers and it relaxes the Company's fiscal discipline, recommended CenterPoint Energy's Petition be denied.

On May 13, 2024 CenterPoint Energy replied, addressed the Department's arguments and continued to support its Petition.

B. Commodity Smoother Proposal

CenterPoint Energy currently adjusts over/under payments for natural gas through its Automatic Annual Adjustment (AAA) report due on September 1 of each year. Monthly PGA reports show the difference between actual and planned collections. Cumulative monthly differences are summarized in the AAA Report and the resulting net over/under payments are recovered through a fixed monthly adjustment over the following year. Any over/under cost recovery is refunded/collected well after a year incurred.[1]

To reduce cost recovery lag time to a minimum of two months and to allow time for month-end accounting procedures, CenterPoint Energy' Petition proposed a new adjustment factor, known as the Commodity Smoother. Since the Commodity Smoother would be added to the totals reported in the monthly PGA filings, the two-month lag would more accurately align natural gas costs with the ratepayers who consumed the gas. The shorter lag time would also allow CenterPoint Energy to better match revenues and expenses and to reduce fluctuations in related asset or liability balance sheet accounts.

The Company originally introduced the Commodity Smoother in its 2022-2023 AAA filing however it was not considered in the proceeding.[2] Instead, this miscellaneous docket exclusively focuses on the Commodity Smoother.

[1] CenterPoint Energy, Initial Filing page 1.

[2] CenterPoint Energy Docket No. G-008/AA-23-381, pages 26-27.

The proposed Commodity Smoother would apply any over/under collections for a particular month and refund/charge those collections two months after they occurred. For example, the Company under collected $4,526,133 in January 2023. Under the Commodity Smoother, the Company would charge for this under collection two months later in March 2023, allocated across March 2023 forecasted sales.

The two-month lagged true-up would not perfectly recover costs because actual sales in the recovery month will not match forecasted sales. Additionally, other items such as propane usage and electricity for the hydrogen electrolyzer would continue to pass through to the annual true-up. On a calendar basis, the Commodity Smoother would apply monthly adjustments to the period from November to June for the months of record running from September to April. The last two months of over/under recoveries, July and August, would flow directly to the annual true-up.

Table 1 shows showing an example of how the Commodity Smoother can reduce over/under collections.[3] In every year over/(under) collections would have been lower with the Commodity Smoother.

Table 1: Average over/(under) Collection		
AAA Year	**Current Procedure**	**With Commodity Smoother**
2017-2018	$ (28,253,900)	$ (19,695,253)
2018-2019	$ (23,529,242)	$ (7,610,368)
2019-2020	$ 5,500,814	$ 2,460,113
2020-2021	$ (27,747,599)	$ (19,804,772)
2021-2022	$ (15,812,274)	$ (10,196,249)
2022-2023	$ (10,731,950)	$ (7,742,918)

The Company noted that protections from significantly higher gas prices would remain for its customers.[4] Order Point 3 in Docket G-008/M-21-138 requires the Company to make a Compliance Filing within 14 days if the price paid for daily spot gas exceeds five times the average price of gas filed in PGA for that month. Additionally, the Company shall report actions to account for or mitigate those costs, and justifications for why its actions were prudent. If warranted, the Commission would have the authority to further investigate the price increases or suspend the Commodity Smoother while the matter is under investigation.

[3] CenterPoint Energy Initial Filing, page 2.

[4] *Id.*

III. DISCUSSION

A. Clear and timely information for customers to respond to price signals

The Department stated the Commodity Smoother would violate one of the PGA's goals which states that customers should be able to receive "clear and timely information about gas costs to allow them to take action and respond to expected increases in energy costs."[5] Referencing a similar Commission action related to the Fuel Clause Adjustment (FCA) in 2017, the Department argued that shorter lags in price adjustments diluted price signals, diminishing customer ability to understand and predict such price action.[6] Under the current procedure, since the PGA cost recovery is changed annually, customers can more easily view the change and understand the implicit price signal. However, under the proposed Commodity Smoother, customers would need to track a monthly series of smaller adjustments, a more burdensome and time-consuming task.

CenterPoint Energy admitted that price signals are difficult for customers to respond to. However, the Commodity Smoother would enhance customer knowledge of rates by communicating gas purchase price information after a two-month lag instead of the current lag of up to fourteen months that spreads cost recovery/refund over the following twelve months. The Commodity Smoother's resulting benefit is a less dramatic annual true-up rate adjustment change in September.[7]

Additionally, to allow customers to respond to price signals, CenterPoint Energy provides customers with information to manage their bills, to learn about energy efficiency, and assistance programs such as average month billing. The Company also disseminates information through multiple public media channels. For example, press releases promote bill assistance programs and energy-savings tips and safety information are promoted via social media.[8]

B. Incentives for CenterPoint Energy to minimize costs

The Department noted that faster cost recovery of higher costs removes the incentive for CenterPoint Energy to minimize costs since the probability of being held accountable is diminished. Under the present procedure, the Company must wait for the annual review to recover costs. However, under the Commodity Smoother, the wait time is reduced, making the Company less sensitive to efforts to minimize its costs as the likelihood of thorough regulatory review falls.[9]

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[5] Department of Commerce, Comments, p. 1.

[6] *Id.*

[7] CenterPoint Energy, Reply Comments, p. 2.

[8] *Id.* at 3-4.

[9] Department of Commerce, Comments, pp. 1-2.

CenterPoint Energy replied that it targets price protection and pricing volatility on behalf of customers as detailed in its Gas Procurement Plan (GPP).[10] The GPP details the Company's strategy to protect customers through a diverse supply plan which includes supply from the daily spot market purchases, swing supply contracts, storage withdrawals, and financial hedges.

C. Level of regulatory burden

According to the Department, additional monthly reviews of proposed cost recoveries would increase the PGA's complexity, make prudency determinations more difficult, weaken the prudency review process and saddle the Department with extra regulatory burden. As a result, determinations of the reasonableness of specific changes and the analysis of distinctions between costs and rates would become more challenging. In the case of extraordinary price spikes, the Department and the Commission would need to immediately respond to determine the prudency of the proposed cost recoveries.[11]

The Company agreed with the Department's admission, however, that the PGA should be able to give utilities an opportunity to recover reasonable costs at a faster rate.[12]

D. Likelihood that customers may incur costs before Commission prudency review

The Department argued that monthly adjustments would arrive too soon, requiring the Department and Commission to respond and review quickly to avoid any extraordinary costs from being recovered from customers before Commission review. The likelihood that costs might be recovered or refunded before Commission review would increase.[13]

In contrast, CenterPoint Energy asserted that implementation of the Commodity Smoother would not prevent timely review of the Gas Procurement Plan or the AAA filing.[14] The two-month lag allows sufficient time for communication and analysis before the adjustment is added to the monthly PGA.[15]

Furthermore, the Commodity Smoother's two-month lag can keep monthly billing prices closer to the current cost of gas. Earlier adjustment times benefit customers with quicker refunds and the Company with reduced financing costs.[16]

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[10] CenterPoint Energy, Reply Comments, pp. 1-2.

[11] Department of Commerce, Comments, p. 2.

[12] CenterPoint Energy, Reply Comments, pp. 4-5.

[13] Department of Commerce, Comments, p. 2.

[14] CenterPoint Energy, Reply Comments, p. 4.

[15] *Id.*

[16] *Id.* at 4-5.

E. Consistency of principle with 2017 Fuel Clause Adjustment (FCA) reforms

The Department concluded that consistency of principle with the Commission's 2017 Order on FCA reforms for electric utilities calls upon the Commission to reject the Commodity Smoother proposal.[17] In the FCA reform, the Commission approved a halt to monthly FCA adjustments for electric utilities. The sustaining exception in that docket was a mechanism to allow an adjustment for costs that vary by plus or minus five percent of all FCA costs.[18]

CenterPoint Energy asserted that the Department's comparison with the FCA is not valid because the electricity market is fundamentally different from the gas market. Natural gas utilities do not produce their own supplies or have purchased power contracts to lock in fuel costs. Instead, gas utilities face degrees of market volatility in a month that electric utilities may not experience over several months. While the FCA allows electric utilities mid-year adjustments for price changes greater than five percent, the gas industry could see this level of volatility within one month. With much higher ranges of gas price volatility (from -19% to +29% for January 2024, for example), CenterPoint Energy continued to believe the Commodity Smoother is a reasonable and better mechanism for adjusting gas cost fluctuations.[19]

F. Staff Analysis

Staff notes that the reduced lag does not necessarily result in better ratepayer signals. For instance, under the Commodity Smoother, a large variance late in the heating season would be recovered in late spring/early summer. Since bills outside the heating season are generally very low, a large Commodity Smoother adjustment during those months could confuse ratepayers.

Staff agrees with the Department's assessment that the reduced lag increases Staff workload at both agencies and provides minimal ratepayer benefits.

Finally, Staff notes that CenterPoint's comparison of January 2024 price volatility to the 5% rule in the FCA ignores the fact that the 5% in the FCA applies to the total *annual, not monthly*, cost fluctuations. Therefore, Staff does not find CenterPoint's argument regarding this issue to be persuasive.

IV. DECISION OPTIONS

1. Approve CenterPoint Energy's Commodity Smoother proposal. (CenterPoint Energy)

OR

2. Do not approve CenterPoint Energy's Commodity Smoother proposal. (Department)

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[17] Department of Commerce, Comments, p. 2.

[18] *Id.*

[19] CenterPoint Energy, Reply Comments, p. 5.