STATE OF MINNESOTA

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July 1, 2014

Dr. Burl Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of the Application of CenterPoint Energy Minnesota Gas to Increase Rates for Natural Gas Service in Minnesota
MPUC Docket No. G-008/GR-13-316

Dear Dr. Haar:

Enclosed for filing in the above matter, please find the Minnesota Department of Commerce's **corrected** Request for Reconsideration and Clarification. Correction is necessary due to: 1) inadvertent inclusion of the term "MERC" in several places rather than the correct name, "CenterPoint" and 2) identification, with help from Commission Staff, that the Commission incorporated Decision Option 18. I apologize for the inadvertent errors and inconvenience.

Sincerely,

/s/ **Julia E. Anderson**

Julia E. Anderson
Assistant Attorney General
Atty. Reg. No. 0138721

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Attorney for the Minnesota
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AFFIDAVIT OF SERVICE

Re: In the Matter of the Application of CenterPoint Energy Minnesota Gas to Increase Rates for Natural Gas Service in Minnesota
MPUC Docket No. G-008/GR-13-316
OAH Docket No. 80-2500-30979

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

I, Patricia Silberbauer, hereby state that on July1, 2014, I efiled the attached Minnesota Department of Commerce's **corrected** Request for Reconsideration and Clarification., and served the same by United States Mail, upon all parties on the attached service list, postage prepaid, by depositing the same at St. Paul, Minnesota.

See attached service list

/s/ Patricia Silberbauer

Subscribed and sworn to before me
on July 1, 2014

/s/ Sandra A. Bush
Notary Public - Minnesota
My Commission Expires Jan. 31, 2015

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BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION
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ST. PAUL, MINNESOTA 55101-2147

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

IN THE MATTER OF THE APPLICATION OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY MINNESOTA GAS TO INCREASE RATES FOR NATURAL GAS SERVICE IN MINNESOTA

MPUC Docket No. G-008/GR-13-316

REQUEST FOR RECONSIDERATION AND CLARIFICATION OF THE MINNESOTA DEPARTMENT OF COMMERCE
(Corrected July 1, 2014)

JUNE 30, 2014

I. INTRODUCTION

The Minnesota Department of Commerce, Division of Energy Resources, Energy Regulation and Planning Unit (Department or DOC) respectfully requests that the Minnesota Public Utilities Commission (Commission) reconsider one sub-issue with respect to test-year Qualified Pension expense – the calculation of the discount rate assumption for ratemaking purposes. If the Commission declines to reconsider the discount rate assumption, the Department urges the Commission to remain open in current and future rate cases based on records developed in those proceedings for further evaluation of the appropriate methodology for calculating the test-year discount rate assumption that best ensures just and reasonable rates. The Department also requests a clarification regarding one rate-design issue.

II. RECONSIDERATION: A DISCOUNT RATE ASSUMPTION BASED ON AN HISTORICAL AVERAGE OF RATES CALCULATED USING INAPPLICABLE ACCOUNTING STANDARDS, WHILE LESS ONEROUS TO RATEPAYERS THAN CENTERPOINT'S PROPOSAL, IS STILL BASED ON INAPPROPRIATE ASSUMPTIONS; THE DEPARTMENT URGES ADOPTION OF A 7.25 PERCENT DISCOUNT RATE ASSUMPTION

For ratemaking purposes, the Commission must determine a reasonable test-year pension expense to include in rates going forward until the next rate case. This determination of pension expense differs significantly from annual pension calculations for bookkeeping financial purposes that are done at a specific point in time and can vary significantly year to year.[1] The discount rate assumption (discounting to the present CPE's future pension obligation) is an element of the pension test-year expense and, whether for ratemaking or accounting, is simply an assumption. However, the basis for the assumptions for the annual bookkeeping purposes is materially different than the basis for the assumptions for ratemaking purposes. As discussed further below, the Department respectfully requests that the Commission reconsider its discount

[1] DOC Ex. 526 at 10 (Johnson).

rate assumption in this matter such that it adopt for ratemaking purposes the same 7.25 percent rate that the Commission determined is reasonable to use for the long-term growth rate assumption.

In its Order, the Commission appropriately rejected CenterPoint's[2] proposed discount rate of 4.75 percent stating, "neither the accounting standard [Accounting Standards Codification 715, or ASC 715 proposed by CenterPoint] nor the federal pension funding laws govern pension expense calculations for ratemaking purposes."[3] The Commission, however, did not adopt the Administrative Law Judge's (ALJ's) methodology, which the Department supported, to use the same rate for the discount rate and expected long term growth rate for ratemaking purposes. Instead, the Commission explained that the Company's historical five-year (2009-2013) average discount rate of 5.35 percent "provides the best basis" in this record for calculating the discount rate assumption for the test year.[4]

This issue warrants reconsideration because it is important for the level of pension expense charged to ratepayers to reflect reasonable assumptions; as discussed below, the assumptions underlying the figures used in the five-year average are not appropriate for ratemaking purposes. Further, as this record shows, a lower discount rate assumption means a higher test-year pension expense charged to ratepayers.[5] A five-year historical average of 5.35 percent results in a discount rate assumption that is less burdensome to ratepayers because it is higher than CenterPoint's proposed 4.75 percent discount rate; however, the five-year average

[2] "CenterPoint" refers to CenterPoint Energy Resources, d/b/a CenterPoint Energy Minnesota Gas (CenterPoint or the Company).
[3] Order at 12.
[4] Order at 12.
[5] DOC Ex. 525 at 14 (Johnson Direct) (higher test-year pension expense due to lower expected long-term growth rate and discount rate assumptions).

suffers from a core failing: each of the five discount rates making up that average was calculated based on inappropriate assumptions for ratemaking purposes.

The low discount rate in ASC 715 is specifically designed to reflect a company's current settlement of its future pension obligation if necessary due to financial difficulties, and results in higher annual pension expense for accounting purposes. As Mr. Johnson testified:[6]

> In fact, *under ASC 715, there is an inherent bias built into pension expense* caused by the use of different discount rates from the expected return on plan asset rates [expected long-term growth rates], even though these two rates cover the same time period. *All other things equal, this inherent bias causes the estimates of pension expense, prior to when the pensions will actually be paid to employees, to be overstated for each year in which the discount rate is lower than the expected return on plan assets*.

However, it is not reasonable to assume that such circumstances would apply to a rate-regulated utility. As Mark Johnson testified:

> CPE is a regulated utility. As such, CPE is highly unlikely to ever have to "settle" its pension benefits in the manner contemplated under ASC 715 and would be expected to inform the Commission about any such occurrence. Moreover, even if CPE were to go into financial distress, it is highly unlikely that the Company would be required to immediately settle its future pension benefits. In any event, CPE has not shown that it is likely to incur financial distress and be required to "settle" its pension benefits as contemplated under ASC 715. In fact, CenterPoint was financially strong enough to have survived the recent downturn in the economy.[7]

Not only is CenterPoint a regulated public utility, the Commission did not determine that CenterPoint is likely to go bankrupt between now and its next rate case, since this record includes absolutely no evidence that CenterPoint is near financial collapse or is otherwise at imminent risk of having to "settle" its future pension obligation.

Since each of the five figures that were in the five-year average used in calculating the 5.35 percent discount rate is based on the inappropriate assumptions above (the assumption that

[6] DOC Ex. 526 at 16 (Johnson Surrebuttal) (emphasis added).
[7] DOC Ex. 526 at 18-19 (Johnson Surrebuttal).

CenterPoint must immediately "settle" its pension obligation), which overstate annual pension expenses, the average of these five figures also results in an inappropriate discount rate and inappropriately overstated pension expense to be charged to ratepayers.[8]

Instead, the 7.25 percent expected long-term growth rate assumption adopted by the Commission is also the appropriate rate to use for the discount rate assumption for ratemaking purposes, until the Company files its next rate case. The only reason CenterPoint's discount rate and expected long-term growth rate assumptions are different is that the Company applies to the discount rate an inapplicable accounting standard that would allow CenterPoint to immediately "settle" its future pension obligation, which it does not need to do. Department Witness Mr. Johnson explained that at a fundamental level the use of a discount rate that is different from the expected long-term growth rate *over the same time period* (the period for discounting the future obligation to the present is the same period for extrapolating the present expected long-term growth rate to the future) "creates an incongruity" for ratemaking purposes. He illustrated this incongruity, as follows:[9]

> This incongruity is best illustrated by the following example: Assume that Company A sets aside enough money or pension assets today so that, if it earns the expected return on assets over time (*e.g.*, 8 percent), the resulting future pension assets will be equal to the expected future pension liabilities. However, taking the same expected future pension liabilities and discounting them back *over the same time period* using a lower discount rate (*e.g.*, 4 percent) rather than the expected return on assets (*i.e.*, 8 percent), results in a pension liability in current dollars that is higher than the pension assets in current dollars, even though it has already been established that there is enough money today in the

[8] The Department acknowledges that it calculated – but did not recommend – such a five-year average. Given CenterPoint's failure to prove the reasonableness of its proposal, the Department's recommendation to use the same discount rate and expected long-term growth rate assumptions for ratemaking purposes should be adopted because it resolves doubt as to reasonableness in favor of consumers.

[9] DOC Ex. 526 at 17 (Johnson Surrebuttal) (emphasis added).

pension fund to cover Company A's expected future pension liability (assuming that the pension assets earn the expected rate of return).

The Company is not harmed by the Commission giving to ratepayers what the law requires: the benefit of any doubt as to reasonableness regarding the discount rate assumption for test-year qualified pension expense.

For these reasons, and because "any doubt" as to reasonableness must be resolved in favor of the consumer,[10] the Department requests that the Commission adopt for ratemaking purposes a discount rate assumption of 7.25 percent in this proceeding.

If the Commission declines to reconsider this issue, the Department urges the Commission to remain open in current and future rate cases based on records developed in those proceedings for further evaluation of the appropriate methodology for calculating the test-year discount rate assumption that best ensures just and reasonable rates.

III. CLARIFICATION THAT DECISION OPTION NO. 18 IS PART OF THE COMMISSION'S ORDER

THIS SECTION IS DELETED ENTIRELY.

IV. CLARIFICATION REGARDING CUSTOMER CHARGES FOR TRANSPORTATION CUSTOMERS

The Department also requests clarification that the Commission intended the Small Volume Duel Fuel (SVDF) A – Transportation and SVDF B – Transportation customer charges each to be reduced by $10, to $150 and $180, respectively, consistent with the $10 reduction to the SVDF A – Sales and SVDF B – Sales customer charges ordered by the Commission. This $10 reduction to the SVDF – Transportation customer charges by $10 maintains the $100 difference in customer charges between sales and transportation customers as recommended by CPE (Burl Drews Rebuttal, p. 12).

[10] Minn. Stat. § 216B.03 (2014).

IV. CONCLUSION

For the reasons stated above, the Department requests that the Commission reconsider the issue of test-year calculation of the discount rate assumption for ratemaking purposes and adopt the same rate as the expected long-term growth rate of 7.25 percent for use until CenterPoint files its next rate case. The Department also seeks clarification that the Commission intended to maintain the $100 difference in customer charges for sales and transportation charges, by reducing both the Small Volume Duel Fuel (SVDF) A – Transportation and SVDF B – Transportation customer charges by $10.

Dated: June 30, 2014
(correction filed July 1, 2014)

Respectfully Submitted,

s/ **Julia E. Anderson**
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