

August 25, 2020

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: CenterPoint Energy Annual Incentive Compensation Compliance Filing Pursuant to Minnesota Public Utilities Commission Order (Reply Letter)
Docket No. G008/GR-17-285

Dear Mr. Seuffert:

On April 15, 2020 (revised on April 28, 2020) CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy or the Company) filed its annual incentive compensation compliance report for the year 2019 (Report) in compliance with the following Minnesota Public Utilities Commission (Commission) orders: *Findings of Fact, Conclusions of Law and Order* dated June 3, 2016 in Docket No. G008/GR-15-424 (2016 Order) and *Order Accepting and Adopting Agreement Setting Rates* dated July 20, 2018 in Docket No. G008/GR-17-285 accepting the Offer of Settlement dated March 7, 2018.¹

On June 5, 2020 (revised on June 8, 2020), the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission accept CenterPoint Energy's annual incentive compensation compliance report for the year 2019 as being compliant with the Commission's Order. However, because CenterPoint did not pay its employees as much in short-term incentives as reflected in base rates, the Department also recommended that the Commission require the Company to refund to its customers \$1,047,041, plus interest.

On June 19, 2020, CenterPoint Energy filed a reply letter to the Department's June 8, 2020 Revised Letter regarding the Company's Short-Term Incentive Compensation compliance filing for 2019, disputing the Department's recommendation. The Company requests that the Commission either require no refund or require a smaller refund than the Department recommends.

The Department provides its response below.

¹ *In the Matter of the Application of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G008/GR-17-285, Rebuttal Testimony of Randolph H. Sutton, page 7:3-10 (CenterPoint Energy, Feb. 5, 2018).

In its reply letter at page 2, the Company stated “In general, the Department’s analysis fails to correctly apply the 2015 Rate Case Order, which requirements were carried through in the 2017 Rate Case.”

Further, in its reply letter at page 2, the Company stated “The Department, without explanation, did not incorporate the “Total Company Results” component, which is applied to reflect Center Point’s performance on the STI performance metrics. This component can either increase payout above 100% of target or reduce payout to less than target. The Total Company Results component has been included in the actual payout calculation since 2016.”

However, to the contrary, the Department’s recommendations directly follow the requirements of the June 3, 2016 Findings of Fact, Conclusions and Order (2015 Rate Case Order), and as modified to reflect the 2017 Rate Case Order.

First, as to CenterPoint’s argument that no refund is due, the Commission’s Order in the 2015 Rate Case stated:

10. The Service Company’s short-term incentive plan test year amount shall be adjusted to reflect a 100% payout target.

...

12. CenterPoint Energy shall refund to ratepayers all incentive compensation amounts approved by the Commission and included in base rates that are not paid out to employees under the program. The Company’s short-term incentive compensation plan refund shall include the amounts of unpaid Service Company incentive compensation built into rates unless it shows that corporate allocations to Minnesota jurisdictional utility operations are the reason for lower payout. (Emphasis added)

CenterPoint made no such showing; as a result, the amounts that were not paid under the Service Company Incentive must be refunded to ratepayers.

Second, regarding the amount of the refund, in its reply letter at page 4, the Company stated “In the event the Commission determines that a refund is required due to the underpayment of STI specific to corporate allocations instead of looking at the total, the Company contends that the amount of the refund due is \$52,994, as calculated in the revised Attachment A, rather than the \$147,212 referenced in the Department’s June 8 Letter.”

However, the smaller refund would be inconsistent with decisions already made by the Commission. The Commission’s July 20, 2018 Order Accepting and Adopting Settlement Setting Rates in the 2017 rate case (2017 Order) approved the terms of the March 7, 2018 Settlement, which stated the following regarding recovery of short-term incentive:

In its Application, the Company sought recovery of \$3.4 million for short-term incentive (“STI”) compensation.

In Direct Testimony, the DOC recommended capping STI compensation at 15 percent of base salary.

For purposes of this Settlement, the Parties agree that STI will be capped at 15 percent of base salary as recommended by the DOC.² (Emphasis added)

The term “15 percent of base salary as recommended by the DOC” means that the comparison amount of short-term incentives for the Service Company is also 15 percent of base salary.³ This fact is evidenced by the reference in the approved Settlement at page 9 to pages 18 and 27 of my Surrebuttal Testimony in the 2017 rate case, which stated in part:

Q. Do you continue to recommend an adjustment to the Service Company allocations of STI costs in the test-year revenue requirement?

A. Yes. Similar to my recommended adjustment to CPE regulated STI expenses, I recommend that a 15 percent cap to base pay be applied in this situation as well. Based on a 15 percent cap of base pay, my adjustment reduces test-year Service Company STI expenses by \$438,470, as detailed in DOC Ex. ___ DVL-10, Schedule 3 (Lusti Direct).

...My specific recommendations are as follows: ...

Decrease test-year Service Company STI compensation expense by \$438,000 to reflect a 15 percent cap on allowable Service Company STI compensation as proposed by the Department. (Emphasis added)

Moreover, this language fits the Commission’s 2015 Rate Case Order, where at page 23 the Commission described the role of the cap as follows:

² March 7, 2018 Settlement Agreement *In the Matter of the Application of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for the Authority to Increase Rates for Natural Gas Utility Service in Minnesota*, Docket No. G008/GR-17-285, at 7.

³ In other words, this approach is the same as the method that the Commission approved for Xcel Electric, specifically, “the proper comparison for calculating whether a refund is due is between the test-year amount used to set base rates and the amount actually paid out that is eligible for recovery from ratepayers—i.e., excluding incentive pay beyond 15% of an individual’s base pay.”

Short-term incentive compensation costs should continue to be recovered from ratepayers subject to a cap of 25% of base pay. That cap continues to strike the right balance between the interests of ratepayers and shareholders and between the goals of rewarding solid day-to-day financial management and protecting the long-term thinking vital to good utility management.

The cap responds appropriately to the design of the short-term program. While the program does tie employee compensation in part to performance goals that directly serve ratepayers—safety and operational efficiency—it also ties compensation substantially to Company financial performance. Accordingly, the Commission agrees with the ALJ that the 25% cap is appropriate and should remain in place.⁴

Finally, the 15 percent cap is evidenced by the Commission’s September 4, 2019 Order in this docket.

In its reply letter at page 2, the Company stated “The Department’s analysis incorrectly disregards the Commission’s most recent Order pertaining to the Company’s STI filing, which affirms the methodology that has been used by the Company for STI payouts in 2016, 2017 and 2018.” However, to the contrary, the Department fully incorporated the Commission’s most recent Order pertaining to the Company’s STI Filing, whereas CenterPoint did not.

In its September 4, 2019 Order, the Commission approved CenterPoint’s 2018 incentive compensation annual report “when modified to include CenterPoint Energy’s response to Department Information Request No. 1104 (included to the Department’s Comments as Attachment A)” in the Department’s June 13, 2019 Comments.⁵ That attachment had the same analysis as the Department used in the instant docket. Further, page 3 of the Department’s June 13, 2019 Comments – which are attached to the Commission’s September 4, 2019 Order, stated the following:

The Department reviewed CenterPoint Energy’s response to Department Information Request No. 1104 and agrees that the recoverable amount of incentive compensation paid to Service Company employees in 2018 is \$1,214,262 based on a 15% cap on individual employee base compensation. Since the recoverable amount of incentive compensation paid to Service Company employees in 2018 is \$1,214,262, and exceeds

⁴ As discussed on page 4 of my Surrebuttal Testimony, which is also referenced in the Settlement, the cap was reduced from 25 percent to 15 percent because “CenterPoint did not address the Commission’s statement on page 23 of the Commission’s Findings that ‘Continued under-emphasis of ratepayer-oriented goals in the Company’s short-term incentive program is cause for concern.’”

⁵ September 4, 2019 Commission Order in Docket No. G008/GR-17-285. Accepted CenterPoint Energy’s annual incentive compensation compliance report for the year 2018 as being compliant with the Commission’s Order, when modified to include CenterPoint Energy’s response to Department Information Request No. 1104 (included in the Department’s Comments as Attachment A).

the \$1,047,041 amount of incentive compensation recovered by CenterPoint Energy through base rates in 2018, the Department concludes that CenterPoint Energy does not owe a refund to its ratepayers for incentive compensation collected in 2018 related to Service Company employees.

Thus, the amount eligible for recovery from ratepayers is the smaller of the following two calculations: (1) the Commission approved 15 percent of base salary, and (2) the amount of STI that was paid; for each level of STI Award Percentage, adjusted to reflect the 100 percent target. The refund ensures that ratepayers do not pay for STI above that amount if that incentive is not paid.

Allowing the utility to recover from ratepayers more than 15% of an employee's base pay would thwart this goal by giving more weight to aspects of utility management that benefit shareholders at ratepayers' expense.

The difference between the Department's recommended \$147,212 refund and the Company's alternative recommendation of a \$52,994 refund is \$94,218. The Department's Attachment A to this Letter compares the Department's calculation of the Service Company incentive eligible for recovery and the Company's calculation of the Service Company incentive eligible for recovery, for each of the Service Company employee STI Award Percentage Levels. The Department's Attachment A demonstrates that the Company wants ratepayers to pay incentive compensation to certain employees at a 120 percent rate of the 100 percent target, in violation of the Commission's 15 percent cap of each employee's base compensation, both of which exceed the amounts the Commission allowed in the 2015 Rate Case Order and as reflected in the Commission-approved settlement in the 2017 Rate Case.

In conclusion, the Department recommends that the Commission accept CenterPoint Energy's annual incentive compensation compliance report for the year 2019 as being compliant with the Commission's Order, only upon CenterPoint Energy's filing of a plan to refund to its customers \$147,212, plus interest. The Department would not object to the Company including the \$147,212 refund as part of any interim rate refund in the current rate case, Docket No. G-008/GR-19-524.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DALE V. LUSTI
Financial Analyst

DVL/ja

CenterPoint Energy
Service Company Short Term Incentive
Difference Between the DOC and CPE Calculation of
Incentive Eligible for Recovery
For the Year 2019

Line	STI Award Percentage 1/ (a)	DOC Calculation of Incentive Eligible Recovery 2/ (b)	CPE Calculation of Incentive Eligible for Recovery 1/ (c)	Dollar Difference 3/ (d)	Percentage Difference 4/ (e)
1	0%	-	-	-	-
2	3%	10,107	10,107	0	0%
3	5%	91,991	91,991	0	0%
4	7%	187,913	187,913	0	0%
5	10%	161,324	161,324	0	0%
6	15%	239,279	291,654	52,375	22%
7	20%	4,206	5,047	841	20%
8	25%	125,031	150,037	25,006	20%
9	30%	22,325	26,790	4,465	20%
10	33%	2,389	2,866	477	20%
11	35%	15,453	18,544	3,091	20%
12	40%	5,973	7,167	1,194	20%
13	45%	530	636	106	20%
14	50%	10,901	13,082	2,181	20%
15	65%	12,689	15,227	2,538	20%
16	75%	9,719	11,663	1,944	20%
17	Total 8/	899,829	994,047	94,219	10%

1/ Per Schedule 2 to the Company's April 15, 2020 Annual Incentive Compensation Compliance Filing.

2/ Per Attachment C, Page 1 of 2 to the Department's June 8, 2020 Revised Comments.

3/ Columns (c) - (b).

4/ Columns (d) / (b).

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Letter**

Docket No. G008/GR-17-285

Dated this **25th** day of **August 2020**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Tamie A.	Aberle	tamie.aberle@mdu.com	Great Plains Natural Gas Co.	400 North Fourth Street Bismarck, ND 585014092	Electronic Service	No	OFF_SL_17-285_Official
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Lane PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_17-285_Official
Carolyn	Berninger	cberninger@mncenter.org	Minnesota Center for Environmental Advocacy	26 E Exchange St Ste 206 Saint Paul, MN 55101	Electronic Service	No	OFF_SL_17-285_Official
James J.	Bertrand	james.bertrand@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Brenda A.	Bjorklund	brenda.bjorklund@centerpointenergy.com	CenterPoint Energy	505 Nicollet Mall Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
C. Ian	Brown	office@gasworkerslocal340.com	United Association	Gas Workers Local 340 312 Central Ave SW Minneapolis, MN 55414	Electronic Service	No	OFF_SL_17-285_Official
James	Canaday	james.canaday@ag.state.mn.us	Office of the Attorney General-RUD	Suite 1400 445 Minnesota St. St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-285_Official
Steve W.	Chriss	Stephen.chriss@walmart.com	Wal-Mart	2001 SE 10th St. Bentonville, AR 72716-5530	Electronic Service	No	OFF_SL_17-285_Official
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	No	OFF_SL_17-285_Official
Marie	Doyle	marie.doyle@centerpointenergy.com	CenterPoint Energy	505 Nicollet Mall P O Box 59038 Minneapolis, MN 554590038	Electronic Service	No	OFF_SL_17-285_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_17-285_Official
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_17-285_Official
Annete	Henkel	mui@mutilityinvestors.org	Minnesota Utility Investors	413 Wacouta Street #230 St.Paul, MN 55101	Electronic Service	No	OFF_SL_17-285_Official
Katherine	Hinderlie	katherine.hinderlie@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota St Suite 1400 St. Paul, MN 55101-2134	Electronic Service	Yes	OFF_SL_17-285_Official
Bruce L.	Hoffarber	bhoffarber@kinectenergy.com	Kinect Energy Group	605 North Highway 169 Ste 1200 Plymouth, MN 55441	Electronic Service	No	OFF_SL_17-285_Official
Mary	Holly	mholly@winthrop.com	Winthrop & Weinstine, P.A.	225 S Sixth St Ste 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Nicolle	Kupser	nkupser@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_17-285_Official
Daniel	LeFevers	dlefevers@gti.energy	GTI	1700 S Mount Prospect Rd Des Plaines, IL 60018	Electronic Service	No	OFF_SL_17-285_Official
Amber	Lee	Amber.Lee@centerpointenergy.com	CenterPoint Energy	505 Nicollet Mall Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Roger	Leider	roger@mnpropane.org	Minnesota Propane Association	PO Box 220 209 N Run River Dr Princeton, MN 55371	Electronic Service	No	OFF_SL_17-285_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Eric	Lindberg	elindberg@mncenter.org	Minnesota Center for Environmental Advocacy	1919 University Avenue West Suite 515 Saint Paul, MN 55104-3435	Electronic Service	No	OFF_SL_17-285_Official
Michael	Loeffler	mike.loeffler@nngco.com	Northern Natural Gas Co.	CORP HQ, 714 1111 So. 103rd Street Omaha, NE 681241000	Electronic Service	No	OFF_SL_17-285_Official
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_17-285_Official
Joseph	Meyer	joseph.meyer@ag.state.mn.us	Office of the Attorney General-RUD	Bremer Tower, Suite 1400 445 Minnesota Street St Paul, MN 55101-2131	Electronic Service	No	OFF_SL_17-285_Official
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_17-285_Official
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Samantha	Norris	samanthanorris@alliantenergy.com	Interstate Power and Light Company	200 1st Street SE PO Box 351 Cedar Rapids, IA 524060351	Electronic Service	No	OFF_SL_17-285_Official
Mike	OConnor	moconnor@ibewlocal949.org	Local 949 IBEW	12908 Nicollet Ave S Burnsville, MN 55337	Electronic Service	No	OFF_SL_17-285_Official
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc. & Greater MN Transmission, LLC	1900 Cardinal Ln PO Box 798 Faribault, MN 55021	Electronic Service	No	OFF_SL_17-285_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	No	OFF_SL_17-285_Official
Kevin	Reuther	kreuther@mncenter.org	MN Center for Environmental Advocacy	26 E Exchange St, Ste 206 St. Paul, MN 551011667	Electronic Service	No	OFF_SL_17-285_Official
Elizabeth	Schmiesing	eschmiesing@winthrop.com	Winthrop & Weinstine, P.A.	225 South Sixth Street Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_17-285_Official
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	7400 Lyndale Ave S Ste 190 Richfield, MN 55423	Electronic Service	No	OFF_SL_17-285_Official
Peggy	Sorum	peggy.sorum@centerpointenergy.com	CenterPoint Energy	505 Nicollet Mall Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
James M	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	200 S 6th St Ste 470 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Eric	Swanson	eswanson@winthrop.com	Winthrop & Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_17-285_Official
Samantha	Williams	swilliams@nrdc.org	Natural Resources Defense Council	20 N. Wacker Drive Ste 1600 Chicago, IL 60606	Electronic Service	No	OFF_SL_17-285_Official

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Joseph	Windler	jwindler@winthrop.com	Winthrop & Weinstine	225 South Sixth Street, Suite 3500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_17-285_Official
Jonathan	Wolfgram	Jonathan.Wolfgram@state.mn.us	Office of Pipeline Safety	Minnesota Department of Public Safety 445 Minnesota Street Suite 147 St. Paul, MN 55101-1547	Electronic Service	No	OFF_SL_17-285_Official
Scott	Zemke	szemke@capsh.org	Community Action Partnership	of Suburban Hennepin 8800 Highway 7 Ste 401 St. Louis Park, MN 55426	Paper Service	No	OFF_SL_17-285_Official