

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: September 12, 2013..... *Agenda Item # _5_

Company: CenterPoint Energy Resources Corp.

Docket No. G-008/MR-13-674

In the Matter of a Petition by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas, to Establish a New Base Cost of Gas and Reset the Purchased Gas Adjustment to Zero, to Coincide with the Implementation of Interim Rates in General Rate Filing Docket No. G-008/GR-13-316.

Issue(s): Should the Commission approve the proposed new base cost of gas?

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Relevant Documents

Initial Filing August 2, 2013
Department Comments August 30, 2013
CenterPoint Energy Reply Comments September 3, 2013

The attached materials are workpapers 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.

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Statement of the Issues

Should the Commission approve the proposed new base cost of gas?

Background

On August 2, 2013, CenterPoint Energy Minnesota Gas (“CenterPoint Energy”, “CPE”, or the “Company”) filed a general rate case under Docket No. G-008/GR-13-316.

On August 2, 2013, CenterPoint Energy filed a new base cost of gas to coincide with the implementation of interim rates in the general rate case.

On August 30, 2013, the Department filed comments withholding any recommendation until the Company provides additional information reconciling its test-year demand costs between this petition and its rate case filing (Docket No. G-008/GR-13-316).

On September 3, 2013, CenterPoint Energy filed reply comments.

Relevant Rules

Minn. Rules Pt. 7829.1300, Miscellaneous Tariff and Price List Filings

Minn. Rules Pt. 7825.2700, Subp. 2, New Base Gas Cost

Minn. Rules Pt. 7825.3200 (B), Miscellaneous Rate Changes

Department Comments

The Department concluded that the Company complied with the requirements to separately state the commodity base cost and the demand base cost components for each rate class (Minn. Rules part 7825.2700, subpart 2).

For the demand cost of gas, the Department reviewed the basis the Company relied on, its May 2013 Purchased Gas Adjustment (PGA) filing¹, and found the demand entitlement and costs information to be generally consistent between the PGA filing, this petition and its rate case filing. The Department attributed the slight differences from the May 2013 PGA filing due to updated propane costs and that no capacity release adjustments are reflected in these later, recent filings. The Department also reviewed this petition’s and the rate case’s demand cost schedules and observed minor inconsistencies in cost figures. The Department found that in the rate case filing, CenterPoint reported demand costs of \$74,040,312² and also reported demand costs of \$74,038,731³ in the base cost of gas filing. The Department noted that the Company lists total test-year demand costs of \$74,039,000 as a rounded figure.⁴ Consequently, the Department recommended that CenterPoint provide reply comments to discuss what demand cost figure is most appropriate and if necessary, file revised demand cost schedules.

¹ Docket No. G-008/AA-13-332

² See Docket No. G008/GR-13-316: Exh____(KRN-WP), Vol. 3, Schedule 31, Page 1 of 1, Workpaper 3.

³ See Docket No. G008/GR-13-316: Exh____(KRN-WP), Vol. 3, Schedule 32, Page 10 of 10, Workpaper 2.

⁴ See Attachment 2 of this *Petition*.

For the commodity cost of gas, the Department stated that CenterPoint estimated its commodity costs based on forecasted Henry Hub wellhead prices, and included forecasted price differentials for delivery of natural gas to Ventura, estimates of lost and unaccounted for gas, and pipeline transportation charges.⁵ The Department compared these estimated commodity cost rates to current New York Mercantile Exchange (NYMEX) market expectations and, at this time, found that the Company's estimates do not appear to be inappropriate. The Department noted that CenterPoint's total commodity cost recovery amount was calculated by multiplying the proposed test-year sales estimates in its rate case filing by the commodity cost rates presented in its base cost of gas filing.⁶ The total \$520,669,221 commodity costs CenterPoint included in its rate case filing schedules are consistent with base cost of gas filing schedules.⁷

Together the demand cost of gas and the commodity cost of gas compose CenterPoint's proposed base cost of gas. However, because the Department stated it was unable to confirm the appropriate demand cost of gas level, it could not affirm the Company's proposed total gas cost level until CenterPoint provides clarifying reply comments.

Company Comments

Per the Department's request to explain the different demand cost of gas amounts shown in various schedules, the Company explained the following three amounts in question:

- \$74,040,312 (Docket No. G-008/GR-13-316, Exh __ KRN-WP, Vol. 3, Sch. 31, workpaper 3, p. 1);
- \$74,038,731 (Docket No. G-008/GR-13-316, Exh __ KRN-WP, Vol. 3, Sch. 32, workpaper 2, p. 10);
- \$74,039,000 (Docket No. G-008/MR-13-674, Attachment 2).

The \$74,040,312 is the Company's annual estimated demand expense expected to be incurred. Because the demand costs is recovered on a volumetric basis, the Company then calculated the demand cost rate by dividing the \$74,040,312 annual expense into its estimated annual firm sales volume, or 96,254,200 dekatherms. This produced a demand cost rate of \$0.769216428997384 per dekatherm, or rounded to match the manner in which the Company bills, \$0.7692 per dekatherm (i.e., \$0.07692/therm). Applying the rounded \$0.7692 per dekatherm to its estimated firm sales volume (or \$0.7692 X 96,254,200), results in estimated \$74,038,742 test-year revenues for demand cost recovery. The base cost of gas filing shows the application of this recovery rate to estimated firm sales, rounded to the nearest \$1,000, as \$74,039,000. The Company stated it has used this same rounding technique in it prior cases and believed its demand cost estimates used in this petition and its general rate filing to be the same.

Staff Comment

New Base Cost of Gas

⁵ See Docket No. G008/GR-13-316: Exh__(KRN-WP), Schedule 31, Page 1 of 1, Workpaper 5.

⁶ Docket No. G-008/MR-13-674, Exhibit E, Attachment 3, page 2 of 2.

⁷ Docket No. G-008/MR-13-674, Attachment 3 and Docket No. G-008/GR-13-316, Witness Nesvig Workpapers, Vol. 3, Sch. 32, workpaper 2, page 10 of 10.

The Company proposes to implement the new base cost of gas at the same time as its interim rates take effect in the general rate case, Docket No. G-008/GR-13-316. The interim rates are proposed to be effective for service on or after October 1, 2013. The detail supporting the derivation of the new base cost of gas was not wholly filed as part of this docket. Rather, as noted in Exhibit E, the additional detailed support was filed in the general rate case docket within Witness Nesvig's Workpapers, Volume 3, schedule 31, workpapers 1 - 8.

In its general rate filing, the Company provided testimony that discussed its process of determining the commodity and the demand cost of gas.⁸ The commodity cost of gas was based on the average of four sources'⁹ projected gas prices at Henry Hub for each month of the test-year, then further adjusted to reflect Ventura Iowa, receipt point price differentials, lost and unaccounted for gas and other pipelines' transport costs for delivery to CPE's Town Border Stations. With regard to the demand portion of the gas cost rates applicable to small volume, firm sales customer classes, the Company stated it relied on the entitlement units and rates at current levels as its base (i.e., the 2012-2013 season rates). The Company stated it reflected the anticipated additional entitlements for the upcoming heating season beginning November 2013 in its test year. The Company had also noted that its firm supply contracts that include reservation fees have expired and will be replaced during the test year.¹⁰

In this petition, the Company calculated the weighted average commodity cost of gas separately for each rate class. Even though the same per unit cost was used for each month for all classes, because the consumption pattern is different for each class, the resulting weighted average per unit commodity cost of gas differs among each class. For example, residential customers consume most of their gas in the winter when prices are higher which results in a higher weighted average cost. Whereas, the large volume customers' usage is more even throughout the year which, in comparison, results in a lower weighted average cost.

For comparative and informational purposes, the Company's current commodity cost of gas, effective as of September 1, 2013, is \$3.7236 per dekatherm (\$0.37236 per therm).¹¹ In this petition, the Company's projected commodity gas prices ranges from \$3.98 to \$4.55 per dekatherm over the test-year months (based upon February 2013 or older published forecasts). Using these projections and estimated monthly volume consumptions, the Company has projected its residential class' test-year weighted average commodity cost of gas to be \$4.3014 per dekatherm (or \$0.43014 per therm). Even though a monthly purchased gas adjustment mechanism exists, staff suggests a periodic update for commodity costs, as is discussed later.

The per unit gas cost rates proposed in this filing are consistent with the per unit gas cost rates used by CenterPoint in calculating the present rate revenue in the general rate case filing. For example, the residential class' proposed new demand cost of \$0.7692 per dekatherm and commodity cost of \$4.3014 per dekatherm is used in the rate filing to calculate residential cost of

⁸ Docket No. G-008/GR-13-316, Witness Nesvig Direct Testimony, pp. 112-116.

⁹ CenterPoint Energy used the average of four published forecasts: ICF International, Wood MacKenzie, Cambridge Energy Research Associates (CERA) and the Energy Information Administration (EIA).

¹⁰ Docket No. G-008/GR-13-316, Witness Nesvig Direct, p. 115, lns. 22-23.

¹¹ Docket No. G-008/AA-13-777, Schedule C.

gas revenues. The total of the demand costs and commodity costs proposed in the new base cost of gas filing, \$594,708,000 (rounded to the nearest \$1,000), equals the total cost of gas included in the revenues in the rate case filing.¹²

Updated Sales Forecasts

The per dekatherm demand cost in this petition is based on the sales forecast used by CPE in its general rate case. If that sales forecast changes, then the per dekatherm demand cost will also change. As such, any cost of gas adjustment related to the revenue adjustment due to a sales forecast change should also make the necessary adjustment to the demand rate. Within the general rate case initial filing acceptance briefing paper (Docket No. G-008/GR-13-316), Staff recommends that the Commission request that parties make the necessary adjustment to the per unit demand cost of gas if there is a change in the sales forecast.

Updated Commodity Costs

As indicated above, the commodity cost of gas is based on the average of several sources' that issue periodic forecasts. The commodity costs in the filing were based upon pricing forecasts issued in February 2013 or earlier. Although the cost of gas has been fairly stable recently, price changes can significantly impact the general rate case test-year costs. It is understood that any change in the commodity cost of gas would change both revenues and purchased gas costs in an equal amount. However, there are certain other costs in the general rate case filing that are affected by the cost of gas, such as bad debts calculated as a percentage of revenues, storage costs and cash working capital. For example, the test-year bad debt expense is calculated as 1.04 percent of revenues. Accordingly, bad debt expense derived from the test-year gas portion of sales revenues (\$595.0 million) is approximately \$6.2 million; therefore a 10 percent change in gas costs changes bad debt expense by a degree of nearly \$620,000. Staff recommends that the Company be required to file periodic updates of gas costs. Specifically, the gas cost information to be updated is found in Docket No. G-008/GR-13-316, Exh_(KRN-WP), Vol 3, Schedule 31, Workpapers 2 and 5 and should also include the pertinent forecast prices issued from each of the sources relied upon. This update information should be filed both in this docket and the general rate case docket. If, at the time of its deliberations, the Commission should decide that it is appropriate to adjust the cost of gas in the rate case, the necessary information will be part of the rate case record.

¹² Docket No. G-008/MR-13-674, Sum of Attachments 2 and 3; Docket No. G-008/GR-13-316, Nesvig Exhibit ___ (KRN-WP), Vol. 3, Schedule 32, workpaper 2, pp. 1-10, sum of "cost of gas revenues" line items. Further note that when comparing the total cost of gas amounts filed in these two separate dockets (G-008/GR-13-316 and G-008/MR-13-674), within the rate case filing expense detail, the cost of gas category (shown on Schedule C-1 of the information requirements) does not reflect the cost of propane which CPE included as part of the demand cost of gas. Rather, the propane cost related to demand is reported in the production cost category line item (on Schedule C-1).

Commission Options

Some Commission options are:

1. Base Cost of Gas
 - A. Approve CenterPoint Energy's Base Cost of Gas as filed by the Company.
 - B. Do not approve the Base Cost of Gas.
2. Updated Commodity Costs
 - A. Require CenterPoint Energy to update the commodity cost of gas. Direct the Company to work with the Department and Staff to determine the time increments. The updates should be filed in both this docket and the general rate case Docket No. G-008/GR-13-316.
 - B. Do not require CenterPoint Energy to update the commodity cost of gas.