

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: September 7, 2017 **Agenda Item # 2 ***

Company: CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy
Minnesota Gas

Docket No. G-008/MR-17-591
In the Matter of CenterPoint Energy Resources Corporation’s Filing to
Establish a New Base Gas Cost Filing (PGA Zero-Out) for Interim Rates in
CenterPoint Energy’s General Rate Filing, Docket No. G-008/GR-17-285

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

Staff: Jorge Alonso 651-201-2258
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Relevant Documents

Initial Filing August 2, 2017
Department Comments August 14, 2017
CenterPoint Energy Reply Comments..... August 21, 2017

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 otherwise noted.

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August 25, 2017

Statement of the Issue

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

Background

On August 2, 2017, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (“CenterPoint”, “CenterPoint Energy”, “CPE”, or the “Company”) filed a general rate case under Docket No. G-008/GR-17-285. On the same day, CenterPoint filed a new base cost of gas to coincide with the implementation of interim rates in the general rate case.

On August 14, 2017, the Minnesota Department of Commerce, Division of Energy Resources (“Department”) filed comments recommending, subject to CenterPoint providing Attachments 1 through 3 without rounding, approval of CenterPoint’s base cost of gas filing.

On August 21, 2017, CenterPoint filed reply comments complying with the Department’s request.

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

Demand Cost of Gas

The Department reviewed CenterPoint’s filing for consistency with the calculations in the rate case and those in the base cost of gas filing and determined that the information is generally consistent between both.

The Department explained that CenterPoint calculated its demand cost of gas based, in most part, on the demand entitlement units and costs that are estimated to be charged in the Company’s November 2017 Purchased Gas Adjustment (PGA) filing; however, the demand costs are slightly different between the estimated November 2017 PGA and the rate case and base cost of gas filings because the rate case and base cost of gas have updated propane costs, and do not contain capacity release adjustments, which are included in the monthly PGA filings.

Based on a review of the rate case schedules and the demand cost information included in the base cost of gas filing, the Department observed two different demand cost figures. In the rate case, CenterPoint reported demand costs of \$85,956,914 and, in the base cost of gas filings, it

reported test-year demand costs of \$85,957,000. The Department observed a similar instance in the Company's previous base cost of gas filing¹ and that, in response to the Department's request for clarification, CenterPoint explained that the small difference was due to rounding.

Although the Company rounded correctly in this docket, the Department recommended that the Commission set CenterPoint's base cost of gas using the exact demand cost figure of \$85,956,418².

Commodity Gas Costs

The Department pointed out that CenterPoint estimated its commodity costs based on forecasted Henry Hub wellhead prices, forecasted basis point differentials for delivery of natural gas to Ventura, estimates of lost and unaccounted for gas, and pipeline transportation charges. The Company's price forecasts were based on estimated New York Mercantile Exchange (NYMEX) Henry Hub gas prices over the period April 2017 to September 2018 as provided by CenterPoint's Gas Supply Group.

The Department compared the Company's estimates to current NYMEX market expectations and determined that the rate estimates do not appear to be inappropriate. The Department noted that, when final rates are set, these estimates should be compared to actual gas costs and, at that time, the Commission may wish to consider whether any adjustments to gas costs and corresponding effects on other costs in the rate case should be reflected in final rates.

The Department highlighted that, in Attachment 3 of its base cost of gas filing, CenterPoint's shows a total commodity cost, based on rounded sales, of \$436,448,000 which differs from the \$436,444,416 commodity figure included in CenterPoint's rate case filing Kirk R. Nesvig, Workpaper Volume 2, Schedule 38, Workpaper 2. Since the base cost of gas is a fixed rate in the tariff, based on its analysis, the Department concluded that the calculation resulting in the rounded figure of \$436,448,000 in Attachment 3 of its Petition is the most appropriate for use as the commodity cost of gas figure. Since this commodity cost figure is only shown as a rounded amount, the Department recommended that CenterPoint provide, in Reply Comments, its Attachment 3 without rounding.

Total Gas Costs

The Department stated that, when the test-year demand gas cost (\$85,956,418) and test-year commodity gas cost (\$436,447,904) are added together, it translates into total gas costs of

¹ Docket No. G-008/MR-15-728

² This figure is calculated by adding together the annual small volume firm costs (107,437,552 Mcf x \$0.7984 = \$85,778,142) and the annual large firm demand costs (31,784 Mcf x \$5.6090 = \$178,276). Commission Staff notes that there appears to be a typo on page 2 of the Department's comments which shows the Large Firm peak demand rate to be \$5.060 (rather than the 5.6090); however, the overall result of \$178,276 is correct.

\$522,404,322. The Department concluded that the rate case schedules should be updated to correctly reflect demand costs.³ Regarding cost figures in the base cost of gas filing, the Department concluded that they are appropriate and reasonable, with the clarification that the rounded figures *not* be used to set the base cost of gas. The Department noted that cost figures in Attachment 1 of the Petition are rounded; as such, it recommended that CenterPoint provide this attachment updated without rounding in its Reply Comments.

Recommendations

Subject to the Company filing Attachments 1 through 3 without rounding, the Department recommended that the Commission approve CenterPoint's base cost of gas filing.

CenterPoint Energy Reply Comments

As requested by the Department, CenterPoint Energy filed Attachments 1 through 3, without rounding.

Staff Analysis

Staff points out that commodity gas costs, although recovered dollar for dollar, is a component of total *revenue* and total revenue is either a component or the "driver" for various test year estimates such as bad debt expense, late payment fees and storage costs. For instance, proposed test year bad debt expense is calculated as 0.96% of firm revenue; therefore, a 10% fluctuation (\$43.645 million) in commodity gas costs would impact bad debt expense by \$419,000.

Due to the commodity gas costs' impact on various test year estimates, the Commission may want to require CenterPoint to provide updated cost of gas information throughout this proceeding as a check on the reasonableness of the amount forecasted for the test-year. To insure that the record is complete, if the Commission does order these filings, CenterPoint should be instructed to make the filings under both this docket and the general rate case docket.

Decision Alternatives

Base Cost of Gas

1. Approve CenterPoint's Base Cost of Gas as filed. (CPE)
2. Approve CenterPoint's Base Cost of Gas, without rounding. (Department)

³ Recommendation to update rate case schedules was made in Docket No. G-008/GR-17-285.

3. Not approve CenterPoint's Base Cost of Gas.

Updated Commodity Costs

4. Require CenterPoint Energy to provide updated information on the commodity cost of gas during this proceeding and in the general rate case. Direct the Company to work with the Department and Commission Staff to determine the appropriate timing for providing this information and whether this updated information should be applied to CenterPoint Energy's base cost of gas. The updates shall be filed in both this docket and in the general rate case, in Docket No. G-008/GR-17-285. (Staff)
5. Do not require CenterPoint Energy to provide updated information on the commodity cost of gas.