

## Staff Briefing Papers

Meeting Date    December 2, 2021    Agenda Item 6\*\*

Company    CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas

Docket No.    **G-008/MR-21-436**

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-21-435

Issues    Should the Commission approve CenterPoint Energy’s proposed new base cost of gas?

Staff	Godwin Ubani	<a href="mailto:godwin.ubani@state.mn.us">godwin.ubani@state.mn.us</a>	651-201-2191
	Jason Bonnett	<a href="mailto:jason.bonnett@state.mn.us">jason.bonnett@state.mn.us</a>	651-201-2235

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### Relevant Documents

#### Date

CenterPoint Energy – Initial Filing	November 1, 2021
Department of Commerce – Comments	November 10, 2021
CenterPoint Energy – Reply Comments	November 15, 2021

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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 noted otherwise.

## I. Statement of the Issues

Should the Commission approve CenterPoint Energy's proposed new base cost of gas?

## II. Introduction

CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy, CenterPoint, CPE, or the Company) filed its petition and requested approval 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 its general rate case filing, Docket No. G-008/GR-21-435. This miscellaneous filing matches CenterPoint Energy's proposed interim retail billing rates with the gas costs used to calculate CPE's proposed interim rate revenue. This filing eliminates the purchased gas adjustment (PGA), which represents the difference between CenterPoint Energy's current base costs approved in Docket No. G-008/GR-19-524, and the new base gas costs used in CenterPoint Energy's current general rate filing in Docket No. G-008/GR-21-435.

If the total amount of the rate increase approved at the end of the rate case (Docket G-008/GR-21-435) is lower than the total amount of the interim rates collected, the Company will refund the difference with interest, and if the total amount of the final rates is higher than the total amount of interim rates, the Company will not charge the customer for the difference.<sup>1</sup>

## III. Background

On November 1, 2021, CenterPoint Energy filed a general rate case under Docket No. G-008/GR-21-435. On the same day, CenterPoint Energy filed a new base cost of gas under Docket G-008/MR-21-436 to coincide with the implementation of interim rates in the general rate case.

On November 10, 2021, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments recommending that the Commission approve CPE's Base Cost of Gas petition with certain conditions.

CenterPoint Energy on November 15, 2021 filed reply comments accepting the Department's recommendations.

## IV. 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

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<sup>1</sup> See Docket No: G-008/GR-21-436, Interim Tariffs, Section V, Revised p. 1.

## V. Parties' Comments

### A. CenterPoint Energy - Initial Filing

CenterPoint Energy in its petition proposed recovery of test-year demand gas costs of \$145,239,074 and commodity cost of gas \$450,029,114. Thus, when the proposed demand costs and commodity costs of gas are added together, these result in total gas costs of \$595,268,188.

### B. Department of Commerce – Comments

#### 1. Demand Cost of Gas

The Department reviewed and analyzed CPE's Petition for consistency with calculations in the rate case and those in the base cost of gas and observed that the information is generally consistent between both with insignificant difference<sup>2</sup> due to rounding. The Department observed that CPE calculated its demand cost of gas based on the demand entitlement units and costs that are estimated to be charged beginning in the Company's November 2021 Purchased Gas Adjustment (PGA) filing. The Department noted that demand costs are marginally different between the estimated November 2021 PGA and the rate case and base cost of gas filings. Thus, the Department stated that the Company's base cost of gas filing<sup>3</sup> in its previous rate case<sup>4</sup> contained similar discrepancies attributable to differences in updated propane costs and capacity release adjustments.

Also, the Department noted that demand costs are based on the interstate pipeline rates of Northern Natural Gas (Northern or NNG), Viking Gas Transmission (VGT), and Trailblazer Pipeline Company LLC (TPC), including any existing negotiated agreements that CPE might have with the pipelines. The Department opined that the Company, among other changes, has now also included the renegotiated contract with NNG in its October 25, 2021 Supplemental Filing in Docket 21-523. The Company noted that demand costs had increased by approximately \$18.6 million. These costs would not be included in the Petition given the timing differences and the fact that the Company relied on the July 1, 2021 filing in Docket No. 21-523.<sup>5</sup>

Additionally, the Department noted that CenterPoint's witness Nicole Gilcrease in Direct Testimony in Docket 21-435, described the derivation of commodity and demand costs of gas and how gas costs impact the level of cash working capital and storage inventory costs included CPE's general rate case.<sup>6</sup> In fact, the Department pointed out that Commission Staff in its

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<sup>2</sup> Department Comments, p. 1.

<sup>3</sup> Docket No: G-008/MR-19-525

<sup>4</sup> Docket No: G-008/GR-19-524

<sup>5</sup> Department Comments, p. 3.

<sup>6</sup> id.

August 25, 2017 Briefing Papers on CPE's base cost of gas filing in Docket No. G008//MR-17-591, stated the following:

*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.*

In view of the above discussion, the Department recommended that CPE provide updated cost of gas information in this proceeding (in the past companies have been required to update base cost of gas information reflecting changes in commodity and demand costs)<sup>7</sup> and in the related rate case and such update should be filed in the instant docket and in the general rate case, Docket 21-435. Further, the Department, by virtue of its review of CPE's rate case schedules and demand cost information included in the base cost of gas filing, noted there were two different demand cost figures. For the rate case CPE reported demand costs of \$145,239,074<sup>8</sup>, and in the base cost of gas filings, it reported test-year demand costs of \$145,238,657.<sup>9</sup> Overall, the Department concluded that its review of demand costs did not reveal any inconsistencies between the sales forecast reported in the rate case filing and the one that was presented in the base cost of gas Petition.

## 2. Commodity Costs

The Department indicated that CenterPoint Energy's Gas Supply Group provided the Company's price forecasts that were based on estimated New York Mercantile Exchange (NYMEX) Henry Hub gas prices over the period January 2021 to December 2022. The Company estimated its commodity costs based on forecasted Henry Hub wellhead prices, basis point differentials for delivery of natural gas to Ventura and estimates of lost and unaccounted for gas. The Department opined that CPE used this same method (i.e., used historical and forecasted Ventura Basis point differentials and included them in their calculation through the end of the test year) in previous rate cases and related base cost of gas filings.<sup>10</sup> Thus, the Department upon comparing these estimated commodity cost rates to current NYMEX market expectations, held that, currently, the rate estimates seem appropriate.

Further, the Department stated that in addition to estimating commodity cost for its customers, the Company also determined the monthly estimated Weighted Average Cost of Gas (WACOG).

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<sup>7</sup> See for example, the Commission's December 5, 2017 Order Setting New Base Cost of Gas for Interim Rate Period in Docket No. G011/MR-17-564, September 29, 2017 Order Setting New Base Cost of Gas in Docket No. G008/MR-17-591, and December 18, 2019 Order Setting New Base Cost of Gas in Docket No. G008/MR-19-525, respectively.

<sup>8</sup> Exhibit-NAG-WP, Schedule 46.2, p.1 of 1, Docket No. G008/GR-21-435.

<sup>9</sup> Exhibit NAG-D, Schedule 46, p. 5 of 7, Docket No. G008/GR-21-435.

<sup>10</sup> Department's Comments, p. 4., and See previous rate cases petitions and related base cost of gas filings in Docket Nos. G008/GR-17-285 and G008/MR-17-591; and G008/GR19-524 and G008/MR-19-525.

In this vein, CPE calculated its total gas cost recovery amount by multiplying monthly test-year sales amounts of 134,308,984<sup>11</sup> by the monthly projected WACOG price of \$3.3507<sup>12</sup> per dekatherm for total commodity costs of \$450,029,114.<sup>13</sup>

### **3. Total Gas Costs**

The Department noted that there exists a discrepancy of \$748 that results between the test year total cost of gas of \$595,268,188 (demand cost of \$145,239,074 plus commodity cost of gas of \$450,029,114) and rate case total gas cost of \$595,268,936<sup>14</sup>. However, the Department indicated the difference as acceptable since it was due to rounding.

### **4. Tariffs**

CenterPoint in its Petition included Exhibit D as its proposed updated interim tariff sheets in both clean and redlined versions, which the Department upon review concluded that the proposed changes correctly update the base cost of gas values in accordance with the calculations contained in Exhibit E of the Petition. The Department recommended that should the Commission make changes to the interim rate proposal, then CPE should be required to provide the updated tariff sheets reflecting the Commission's interim rate decision(s) in this proceeding.

### **5. Department's Recommendations**

The Department recommended that the Commission approve CenterPoint's base cost of gas filing as modified by requiring CPE:

- provide updated cost of gas information in this proceeding and in its companion general rate case;
- work with Commission and Department Staff to determine the appropriate timing for providing this information and whether the update(s) to the information should be applied to CenterPoint's base cost of gas and reflected in the accompanying general rate case. The update(s) should be filed in both this docket and in the general rate case Docket 21-435; and
- if the Commission changes the Company's interim rate proposal, require CenterPoint to provide updated tariff sheet reflecting the Commission's interim rate decision(s) in this proceeding.

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<sup>11</sup> Exhibit-NAG-WP, Schedule 46.1, p. 1 of 1, Docket No. G008/GR-21-435.

<sup>12</sup> Id.

<sup>13</sup> Id.

<sup>14</sup> Department Comments, pp. 4-5.

### C. CenterPoint Energy – Reply Comments

CenterPoint accepted all the Department’s recommendations.

### VI. 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, a 10% fluctuation to the proposed \$595,268,188 base cost of gas, would impact bad debt expense<sup>15</sup> by \$386,924.<sup>16</sup>

Staff notes that the CenterPoint calculated the 2022 WACOG to be \$3.3507; however, Staff’s review of NYMEX daily prices revealed that, since August 25, 2021, natural gas prices have been above \$4.00 every day and, since September 24, 2021, there have been only 4 days where the price was below \$5.00.<sup>17</sup> If these trends continue into the test year, it is likely that the *actual* 2022 WACOG will be higher than the forecasted \$3.3507.

Due to the commodity gas costs’ impact on various test year estimates, the Commission may want to require CenterPoint Energy 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 ensure that the record is complete, if the Commission does order these filings, CenterPoint Energy should be instructed to make the filings under both this docket and the general rate case docket

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<sup>15</sup> CenterPoint’s proposed bad debt ratio is 0.65%

<sup>16</sup>  $\$595,268,188 \times 10\% \times 0.65\% = \$386,924$ .

<sup>17</sup> Through November 9, 2021. Source: <https://www.eia.gov/dnav/ng/hist/rngwhhdd.htm>.

## **VII. Decision Alternatives**

### **Base Cost of Gas**

1. Approve CenterPoint Energy's Base Cost of Gas as filed. (CPE, DOC)
2. Do not approve CenterPoint Energy's Base Cost of Gas.

### **Updated Commodity Costs**

3. 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-21-435. (Staff modifying DOC recommendation)
4. Do not require CenterPoint Energy to provide updated information on the commodity cost of gas.

### **Updated Tariff Sheets**

5. If the Commission changes the Company's interim rate proposal, require CenterPoint to provide updated tariff sheets that reflect the Commission's interim rate decision(s) in this proceeding. (DOC)