MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	December 1 and 2, 2021		Agenda Item 4**
Company	CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas		
Docket No.	**G-008/M-21-755** **In the Matter of the Petition by CenterPoint Energy for Approval of a Rate Stabilization Plan**		
Issues:	• Should the Commission approve CenterPoint's rate stabilization plan?		
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✓ **Relevant Documents**	**Date**
CenterPoint Energy	
Initial Filing	November 1, 2021
Comments	
Department of Commerce (DOC)	November 10, 2021
Office of the Attorney General – Residential Utilities and Antitrust Division (OAG)	November 10, 2021
Suburban Rate Authority (SRA)	November 10, 2021
Energy Cents Coalition (ECC)	November 10, 2021
Reply Comments	

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.

✓ **Relevant Documents**	**Date**
CenterPoint Energy	November 15, 2021[1]
Suburban Rate Authority	November 15, 2021
City of Minneapolis	November 15, 2021

[1] Document is dated November 15, 2021; however, it has a November 16, 2021 in edockets.

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I. Statement of the Issues

Should the Commission approve CenterPoint's rate stabilization plan?

II. Background

On November 1, 2021, CenterPoint Energy (CenterPoint, CPE, Company) filed its rate stabilization proposal (Proposal) seeking the following:

- A $39.659 million increase in rates, effective January 1, 2022, and continuing until January 1, 2024. The increase reflects the impact of the Company's ongoing capital investments
- An asymmetrical capital true-up for 2022 and 2023 whereby ratepayers will receive a credit if CenterPoint's capital-related revenue requirement for 2022 or 2023 does not match or exceed the capital-related revenue requirement base as set forth for 2022 in the Rate Case.
- Extension of the ongoing February extraordinary gas costs[2] recovery from 27 to 63 months, with no interest expense provision.
- Establishment of an income tax rider that would only be used in the event of a change in federal or state income taxes in 2022 or 2023;
- Continuation of property tax rider as approved in Docket No. G-008/GR-19-524;
- Continued deferral of COVID-19 regulatory asset[3] but no amortization in 2022 or 2023.

If the Proposal is accepted, then CenterPoint's 2021 rate case that was filed on November 1, 2021 will be settled.[4]

On a related matter, on also November 1, 2021, CenterPoint filed a general rate case seeking authority to increase rates $67.1 million, or 6.5%, for the test year ending December 31, 2022. If the Commission accepts the rate case and suspends the proposed rate increase, CenterPoint requested an interim rate increase of approximately $51.8 million, or 5.1%.

On November 10, 2021, the Department of Commerce (Department), the Office of the Attorney General – Residential Utilities Division (OAG), the Suburban Rate Authority (SRA) and Energy Cents Coalition (ECC) filed comments on CenterPoint's proposal. The Department recommended that the Proposal be denied. The OAG recommended denial unless more time is allowed to review the Proposal. The SRA is favorably disposed to supporting the Proposal, pending some clarification from CenterPoint. ECC recommended that the Proposal be approved.

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[2] Docket No. G-008/M-21-138.

[3] Docket No. E, G-999/M-427.

[4] Docket No. G-008/GR-21-435.

On November 15, 2021, CenterPoint provided additional information regarding its Proposal and reasserted its request for approval.

On November 15, 2021, the SRA filed reply comments recommending that the Proposal be denied.

On November 15, 2021, the City of Minneapolis filed reply comments stating additional time is required before the Proposal can be approved.

III. Comments

A. CenterPoint Energy – Rate Stabilization Proposal – Initial Filing

CenterPoint stated that, when compared to either the Rate Case request or standard interim rates, its Proposal would result in a smaller bill impact to customers. It would also fully resolve the Rate Case without time and resource consuming litigation, allowing parties to focus on the other critical issues currently before the Commission, such as implementation of the Natural Gas Innovation Act (NGIA). Each of the Proposal's components are discussed below.

1. Rate Relief and Approval of Asymmetrical Capital True-Up Mechanism

In its rate case, CenterPoint requested, effective January 1, 2022, a base revenue increase of $67.1 million and an interim rate increase of $51.8 million. The primary drivers for the base revenue increase are the capital investments made since the Company's last rate case and the investments to be made in 2022.

In this Proposal, CenterPoint requested approval to fully resolve the rate case with allowance of increased revenues of $39.659 million, effective January 1, 2022, with that increase implemented in the Rate Case docket. As such, the Proposal represents a reduction in rates, compared to proposed interim or final rates. Table 1 provides a financial comparison between the rate case and CenterPoint's Proposal.

Table 1 – Revenue Requirement Comparison of Prior Case to Current Proposal

	Proposed 2021 Rate Case	Rate Stabilization Proposal
Rate Base	$1,752,138	$1,711,419
Rate of Return	7.06%	6.86%
Required Operating Income	$123,701	$117,403
Operating Income	$75,913	$89,114
Income Deficiency	$47,788	$28,259
Conversion Factor	1.4034	1.4034
Revenue Deficiency	$67,066	$39,659

Additionally, CenterPoint's Proposal uses a one-way capital true-up for 2022 and 2023, similar to those approved in Docket Nos. E-002/M-19-688 and E-002/M-20-743. Under this true-up, if CenterPoint does not put in service the investments projected in the Rate Case, customers will receive a credit of the difference in capital-related revenue requirements between that filed for 2022 in the Rate Case and the Company's actual capital-related revenue requirements of either 2022 or 2023. Conversely, if CenterPoint increases its plant in service beyond the level projected in the rate case, those additional costs will not be surcharged.

Table 2 summarizes CenterPoint's proposed capital true-up procedural schedule.

Table 2 – Proposed Timeline for Capital True-Up Filing

Date	Commission Activity
March 1, 2023	2022 True-Up Initial Filing
April 1, 2023	Comments on Company Filing
April 15, 2023	Reply Comments
May 15, 2023	Commission Hearing
June 1, 2023	Implementation of Reconciliation, If Necessary

2. Extended Recovery of Extraordinary Gas Costs

As part of its Proposal, CenterPoint proposed to extend the recovery period for the extraordinary gas costs associated with Winter Storm Uri from 27 months to 63 months. The Company does not seek recovery of interest on the unrecovered balance during this extended period and understands that these gas costs remain subject to prudence review in Docket No. G-008/M-21-138. If the Proposal is approved, the 2022 and 2023 average monthly impact to residential ratepayers would, respectively, be reduced from $12.83 and $17.62 to $7.44 for both years.

3. Approval of Income Tax Rider

In CenterPoint's rate case filing, the Company requested approval of an income tax rider which would track changes related to any 2022 and/or 2023 changes to income taxes that may be approved by federal and/or state authorities.

4. Property Tax Tracker, No Amortization

As part of its Proposal, CenterPoint requested approval to continue the current symmetrical property tax tracker approved in Docket No. G-008/GR-19-524, including the current regulatory asset balance of $3.6 million. Also included in the Proposal is CenterPoint's proposal to discontinue recovery of the current $7.4 million per year amortization of the property tax tracker balance that was also authorized in Docket No. G-008/GR-19-524.

5. Continuation of COVID-19 Deferral, No Amortization

As part of its Proposal, CenterPoint proposed to continue its current deferral of COVID-19 related costs, as authorized in Docket No. E, G-999/M-20-427. In its next rate case, the Company will provide details on these deferred costs and set forth its proposed regulatory treatment of them. As part of this Proposal, the Company will not begin the amortization of the COVID-related deferral at this time.

6. Proposed Environmental Commitments

CenterPoint reaffirmed its commitment to undertake the following projects in 2022 and 2023 in the event that this proposal is accepted:

- **Methane Reduction Plan – Regulator Stations and Odorizers**: CenterPoint proposed to complete a system-wide study of emissions from regulator stations and odorizers and develop a plan to reduce emissions from those sources for implementation beginning in 2024.
- **Solar Installations on Company Facilities**: CenterPoint proposed to use solar energy for Company facilities beginning in 2022.
- **Optimized Leak Repairs**: CenterPoint proposed to reduce the amount of time it takes to repair grade "B" and "C" (nonhazardous leaks), following their detection. The Company will develop a plan to reduce the time required to repair these leaks and will file a report with the Commission in 2022 and begin implementation of the plan at that time.
- **Increase the Use of Vacuum Purging on its System**: CenterPoint is an early adopter of vacuum purging technology to reduce methane emissions during installation and maintenance work. This technology transfers natural gas between pipelines without emitting methane into the atmosphere, allowing the Company to bypass sections of pipe that are undergoing maintenance or replacement. The Company will increase the use of this technology in its operations and determine benchmarks as to how achieve additional emissions reductions year after year.
- **Electric Vehicles in its Fleet**: CenterPoint proposed to increase the number of electric vehicles in its fleet by the end of 2023.

7. CenterPoint's Revenue Impact

Table 3 shows that, if the Proposal is approved, CenterPoint revenues would be $33.42 million, or 50%, lower than the amount requested in the rate case.[5]

Table 3 – Comparison, Rate Case Revenue Request and Rate Stabilization Proposal, $ in millions

	Proposed 2021 Rate Case	Rate Stabilization Offer	Difference
Rate Increase	$67.10	$39.66	$27.44
Interest Impact of Extending Gas Cost Recovery	$0.00	($5.98)	$5.98
Net Impact	$67.10	$33.68	$33.42

[5] CenterPoint's Proposal, Schedule 4.

8. Residential Ratepayers Impact

Table 4 shows that, when compared to the rate case, if the Proposal is approved, the residential average residential ratepayer would save $64.70 in 2022 and $122.18 in 2023.

Table 4 – Comparison, Average Residential Ratepayer Impact

Year	Proposed 2021 Rate Case Increase Plus Feb. Market Event	Rate Stabilization Offer	Difference
2022	$153.96	$89.26	$64.70
2023	$211.44	$89.26	$122.18

9. Rate Design

CenterPoint indicated that if its Proposal is accepted, the Company would implement the $39.659 million rate increase using the existing revenue apportionment and rate design, as approved in its most recent rate case.[6]

B. Department of Commerce – Comments

The Department recommended that CenterPoint's Proposal be rejected. The Department is concerned that CenterPoint's Proposal marks a significant departure from the guardrails set by the Commission in previous stay-out proceedings. Additionally, the Department doubts that the public interest can be adequately protected without a thorough review of the factors driving CenterPoint's proposed base revenue increase.

The Department does not believe that a full contested case proceeding is necessary to fully resolve CenterPoint's rate case. CenterPoint's Proposal demonstrates the Company's desire to resolve its rate case without the cost and time involved in a fully litigated proceeding. The Department agreed there is an opportunity to save on regulatory time and expenses of a fully executed contested case and is committed to working with CenterPoint to resolve its rate case. However, the Department asserted the best time for such a resolution would be following direct testimony in the contested case which would allow the Department and other parties the ability to review significant proposals to increase rates. Allowing completion of direct testimony before resolving the rate case protects the public interest by ensuring that the cost drivers of CenterPoint's rate increase proposal are fully understood. It also allows each rate case issue to be resolved on its own merits and supported by substantial evidence in future settlement proceedings.

[6] Docket No. G-008/GR-19-524.

1. CenterPoint's Proposal is Different Than Recently Approved Stay-Out Proposals

The Department noted that both of Xcel's approved stay-out proposals[7] did not result in adjustments to base rates. In a similar proceeding, the Commission approved a settlement of Minnesota Power's 2019 rate case[8] that moved certain costs out of base rates and into a statutorily authorized rider. In none of these cases, did the Commission approve new additions to rate base or changes to operating expenses based on information from outside the record of the utility's most recently completed rate case. Instead, those Orders appear to recognize any such changes would warrant additional scrutiny and likely require a rate case.

Since CenterPoint's proposal adds new investments to base rates, it is unclear how this proposal comports with the recent stay-out orders or what legal mechanism would otherwise permit this practice. It's also worth noting that CenterPoint states: "the majority of these investments involve the Company's Transmission Integrity Management Program . . . and Distribution Integrity Management Program[.]" As a result, these investments are likely already are eligible for cost recovery pursuant to the Gas Utility Infrastructure Cost rider statute.[9]

2. The Public Interest Requires Thorough Review of CenterPoint's Cost Drivers

CenterPoint's proposal would require the Commission to allow new, unvetted investments totaling nearly $400 million into utility rate base. The Department is concerned that this would be a departure from past Commission practice for new rate base items. In the past, the Commission has explained such expenses are "context-specific and fact-specific and must be carefully examined on [their] own merits."[10] In this case, it won't be possible to make a decision based on the merits of each investment until intervenors have a chance to go line-by-line through CenterPoint's rate case application.

The Department noted that, as shown in Table 5, CenterPoint's proposed average net rate base is $403.7 million, or 30%, higher than the amount approved in its 2019 Rate Case. These significant proposed rate base additions result in significant increases in CenterPoint's required operating income, which in turn leads to significant rate increases.

Table 5 – Increase in Rate Base from 2019 Rate Case Settlement ($000s)

	2019 Rate Case Settlement	Rate Stabilization Plan Offer	Increase/ (Decrease)
Utility Plant in Service	$2,737,831	$3,264,937	$527,106

[7] Docket Nos. E-002/M-19-688 and E-002/M-20-743.

[8] Docket No. E-015/GR-19-442.

[9] Minn. Stat. § 216B.1635 (2020).

[10] *In re Appl. of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E-002/GR-05- 1428, FINDINGS OF FACT, CONCLUSIONS OF LAW, & ORDER at 12 (Sept. 1, 2006).

Less Accumulated Depreciation and Amortization	$1,124,859	$1,228,383	$103,524
Net Utility Plant in Service	$1,612,972	$2,036,555	$423,583
Gas Storage Inventory – Non-Current	$177	$177	$0
Customer Advances for Construction	($120)	($120)	$0
Accumulated Deferred Income Taxes	($352,286)	($346,171)	$6,115
Working Capital	$46,978	$20,978	($26,000)
Average Net Rate Base	$1,307,721	$1,711,419	$403,698

As shown in Table 6, while the Company's proposed base revenue increase in this docket is intended to be limited to cost increases associated with the Company's capital investments, the proposed revenue increase is comparable to the final outcomes of rate cases which were not similarly limited to a subset of costs. Additionally, while the details of CenterPoint's derivation of its proposed $39.695 million increase is unclear, $6.3 million of the difference between the 2021 Rate Case revenue deficiency ($67.1 million) and the Rate Stabilization Proposal revenue deficiency ($39.695 million) is the result of cost recovery deferrals (related to COVID-19 expenses and the property tax tracker), not real, permanent savings for ratepayers. When both of those amortization expenses are added back in, the Company's Rate Stabilization Proposal would result in a higher percentage of the initial proposed revenue deficiency being approved than in all but one of CenterPoint's last five rate cases. In other words, the Company's offer in this docket is to increase base rates by an amount comparable to, or perhaps slightly greater than, the increases approved in CenterPoint's prior rate cases (which were not limited to capital only), and to do so without any of the review or scrutiny that occurs in a normal rate case.

Table 6 – Comparison or Proposed Rate Increase to Prior Rate Cases ($000s)

	Revenue Deficiency				
Docket	Initial Proposed	Final/ Offer		Final/Offer as Percentage of Initial	Settled/ Litigated
Prior Rate Cases					
GR-19-524	62,032	38,520		62.1%	Settled
GR-17-285	56,503	21,149	1/	37.4%	Settled
GR-15-424	54,105	27,541		50.9%	Litigated
GR-13-316	44,322	32,943		74.3%	Litigated
GR-08-107	59,778	40,800		68.3%	Litigated
Average	55,348	32,191		58.6%	
Rate Stabilization Offer					
M-21-755	67,066	39,659		59.1%	
Rate Stabilization Offer Excluding Impact of Continued Deferrals					
M-21-755	67,066	45,947	2/	68.5%	

1/ The Tax Cut and Jobs act was passed and implemented during the course of Docket G008/GR-17-285. The $21.1 million Final Revenue Deficiency removes the impact of the tax cut, which was outside of CenterPoint's control.

2/ Offer Rev. Deficiency	39,659	
Add back:		
COVID Deferral Amort.	4,468	Petition, Schedule 3
Property Tax Amort.	1,820	Petition, Schedule 3
Adjusted Rev. Deficiency	45,947	

3. CenterPoint's Proposed Base Revenue Increase is Not Adequately Supported

The Department also has concerns related to the black-box nature of CenterPoint's base rate revenue calculations. CenterPoint's stated intention is to enact a rate increase for plant investment only and, to achieve this, it used its financial statements as filed in its 2021 Rate Case as a starting point, and then made a small number of adjustments to its rate base and operating income to arrive at its proposed base revenue increase:

- CenterPoint reduced the Working Capital component of its rate base by $40.7 million, which the Company indicated was to set the working capital component of rate base equal to the working capital component approved in the 2019 Rate Case;[11]
- CenterPoint removed $4.5 million of amortization expense associated with its COVID-19 tracker, as described above;[12]
- CenterPoint removed $1.8 million from property tax expense representing the amortization of its property tax tracker balance included in the 2021 Rate Case;[13]
- CenterPoint made an adjustment to reduce Administrative & General expense by $0.6 million, although the Company does not appear to discuss this adjustment in its Petition;[14]
- CenterPoint adjusted its federal and state income tax expense to reflect the other changes to expenses;
- CenterPoint reduced the cost of capital applied to its rate base from 7.08 percent (reflecting a return on equity of 10.2 percent) as proposed in the 2021 Rate Case, to 6.86 percent, the cost of capital approved in the 2019 Rate Case.

After making all of these adjustments, however, CenterPoint also makes an additional, unspecified adjustment to its operating income of $8.3 million, titled "Foregone income in the interest of settlement (after tax)."[15] CenterPoint provided no support for or explanation of this adjustment; thus, the Department does not understand how it was derived, or how it should be interpreted. As a result, the Department could not confirm that CenterPoint's proposed rate increase does in fact cover only its capital investments. As described above, however, even if the Department were able to confirm that, it would still be unreasonable to approve such a significant rate increase with no review or scrutiny of the prudency of the investments driving it.

4. Income Tax Rider

The Department stated that changes to state and federal income tax rates can have significant impacts on utilities' financial performance and are outside of utilities' control. Therefore, the Department understands CenterPoint's motivation for the proposed Income Tax Rider and believes there may be a path forward on this particular issue. However, at this time, the Department has not had adequate time to review the details and potential impacts of the Company's proposed Income Tax Rider in its 2021 Rate Case and; therefore, cannot conclude that it is reasonable.

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[11] The Department noted that this adjustment appears to be an error, as CenterPoint has set the working capital component of rate base equal to one subcomponent of working capital, Materials and Supplies, from the 2019 Rate Case, rather than Total Working Capital.

[12] Petition, Schedule 3, line 30.

[13] Petition, Schedule 3, line 34.

[14] Petition, Schedule 3, line 25.

[15] Petition, Schedule 3, line 39.

5. Rate Relief for Customers

CenterPoint noted that one of the Proposal's main motivations is to offer meaningful rate relief to its ratepayers. The Department noted that, even if the Commission denies the Proposal, it could still offer meaningful rate relief to the Company's ratepayers. The majority of the Proposal's rate relief results from the CenterPoint's extension, from 27 to 63 months, of gas cost recovery associated with the February Event.[16]

As shown in Table 4 above, CenterPoint estimated that, absent the Proposal, average 2022 residential bills will increase by $153.96. If the Proposal is approved, the estimated 2022 average residential bills will increase by $89.26, or $64.70 less. Of the $64.70 decrease, nearly 80 percent ($50.06) results from the extension of gas cost recovery associated with the February Event. Only $14.64 of the estimated savings results from the Company's base revenue proposal, and those estimated savings are relative to the unlikely scenario that 100% of the Company's 2021 Rate Case Revenue Deficiency is approved for rate recovery.

The Department understands that gas price forecasts for this winter have increased significantly since the Commission approved the 27-month recovery period. Therefore, as a means of providing rate relief to ratepayers, the Commission may wish to revisit the recovery period for of the impacted gas utilities. The Commission could also reconsider its decision to not allow carrying or financing charges on the extraordinary gas costs. As noted in its April 30, 2021 Letter in Docket No. G-008/M-21-138, CenterPoint secured long-term financing at a rate of 0.7 percent for its unrecovered extraordinary gas costs, and in Schedule 5 of its Petition, it indicated that it expects to incur only $6.0 million in interest costs if the recovery period is extended to 63 months.

However, extending the recovery period from 27 months to 63 months would also raise concerns about intergenerational inequity and raise the likelihood that future ratepayers who did not cause any February event costs to be incurred will be required to pay for those costs.

Given the number of stakeholders that may wish to weigh in, as well as the complexities described above, the Department recommended that, if the Commission wishes to revisit the recovery period for extraordinary gas costs, that it do so in the extraordinary gas cost dockets, and that it issue a notice for comments so that all interested parties have an opportunity to weigh in.

C. Office of Attorney General – Comments

The OAG stated that, at face value, the Proposal appears to offer near-term benefits – at least when compared to a looming interim-rate increase. Unfortunately, it is simply not possible to fully evaluate this proposal on the expedited timeframe CenterPoint requests. The Commission should not approve the Proposal merely because it offers a lower immediate bill impact than interim rates. Instead, it should allow stakeholders adequate time to review the proposal,

[16] Docket No. G-008/M-21-138.

conduct discovery, and provide substantive analysis. In addition to the immediate bill impact, the Commission must consider the longer-term risks of approving millions of dollars in utility investments without meaningful prudence review. While CenterPoint's proposal includes a "true-up" feature that would provide refunds if the Company does not deploy planned investments, the likelihood of this scenario occurring is exceedingly small.

The OAG added that the Commission should remove the pressure to act quickly by setting interim rates at or below the amount set forth in the Proposal. In this way, ratepayers would be indifferent as to which increase takes effect on January 1, and the Commission's decision-making process would not be hampered by artificial time constraints. Such action would require a finding of exigent circumstances.

D. Suburban Rate Authority – Comments

The SRA initially signaled support for the Rate Stabilization Plan, but changed its position in its Reply Comments, as described below.

In its Initial Comments, SRA stated that several of the Proposal provisions appear quite beneficial to customers including:

- Extension of the recovery period, without CPE carrying costs, from the Market Event from the Commission-ordered 27 months to 63 months;
- Continued deferral of the Covid-19 regulatory asset; and
- Continuation of the property tax tracker without amortization in 2022 or 2023.

The requested $39.7 million base rate increase, tied to CPE's transmission and distribution integrity management program investments, has an added, near-term rate mitigation effect when compared to the higher but refund-eligible interim rate increase starting on January 1. It further has an asymmetrical capital true-up. If CPE fails to invest at the level authorized with the $39.7 million increase, customers will receive a credit but if CPE exceeds the authorized capital amount no surcharge can be added to customer bills on that basis.

The SRA welcomes continued, prudent CPE infrastructure improvement as part of the Proposal; however, the SRA is interested the Department's and OAG's comments regarding implications of the proposed rate increase without the rigor of rate review and CPE's burden of proof thereunder. As a practical matter, the SRA noted that the $39.7 million appears roughly proportionate to, though not obviously lower than, final Commission rate orders in comparison to previous CPE rate petitions.

The SRA requested clarification of the following:

- Is the entirety of the request for capital spending or will any of this $39M request go towards Distribution O&M costs? If some of this $39M will go towards distribution O&M spending, can CPE provide a breakdown by category?
- Can CPE provide an estimated breakdown of capital spending by category and the

associated revenue requirements for these investments?
- Will the proposed Income Tax Rider be adjusted on a prospective leading basis or on a lagging basis? What are the mechanics and timelines between the implementation of this Rider and changes in effective income tax rates for the utility?
- Will the Rider's percentage increase be reflected directly in base rates or as a separate bill line item?
- Is a Rider more efficient than an automatic adjustment to the Base Rates themselves?
- Is there a revenue requirement associated with the Proposal's environmentally based programs?

The SRA stated that it was is favorably disposed towards supporting CPE's Proposal; however, it will wait for parties' comments and/or clarification on matters identified above.

E. Energy Cents Coalition – Comments

ECC noted that residential ratepayers, particularly lower-income ratepayers, are experiencing economic hardship caused by the pandemic. At the same time, prices for food, gasoline, and other consumer goods are increasing. Further, most CPE residential customers are currently paying for the costs of the February 2021 natural gas price spike. As of September, nearly 10% of all residential customers were behind on their CPE bill.[17]

Residential customers need urgent protection, particularly as the beginning of the heating season coincides with a projected increase in the commodity cost of gas. According to the U.S. Energy Information Administration, "nearly half of U.S. households that heat primarily with natural gas will spend 30% more than they spent last winter on average – 50% more if the winter is 10% colder-than-average and 22% more if the winter is 10% warmer-than-average.[18]

The Company's Proposal represents an important part of increasing customers' ability to pay for natural gas bills. Under the Proposal, rather than experiencing a potential 6.5% rate increase, the proposal limits the increase to 3.9% ($67.1 million in the rate case to $39.7 million in the Stabilization Proposal). Under the Proposal, customers will pay an additional $2.83 per month rather than the rate case increase of $4.05 per month. Additionally, CPE's proposal extends the extraordinary cost-recovery period from 27 to 63 months, lowering the monthly payment amount from $12.83 in 2022 and $17.62 in 2023 to $7.44 for both years. At the same time, the exemptions (for LIHEAP and customers past due 61-120 days) will continue.

ECC believes that CPE's proposal to recover $39.7 million for capital investments is reasonable. First, CPE's investments were reviewed in a recent rate case and new rates have only been in effect since 2021. Second, the Company's primary capital expenses involve investment in distribution and transmission pipeline safety. Third, the Company is only requesting capital

[17] CenterPoint Energy Monthly Report, Docket No. 20-375, September 21, 2021.

[18] U.S. Energy Information Administration, Short-Term Energy Outlook, October 13, 2021.

investment recovery in the stabilization Proposal and does not seek amortization of property taxes.

Given the confluence of current economic circumstances, consumer price increases, and the projected increase in the commodity cost of gas, ECC is very concerned that the number of CPE past-due customers will increase and that a significant percentage of the Company's residential customers will be at risk for service disconnections at the end of the current Cold Weather Rule period. Therefore, ECC recommended approval of CPE's Proposal.

F. Suburban Rate Authority – Reply Comments

The SRA stated that the DOC's and OAG's objections to the Proposal include, among other things, the requested approval of $39.7 million in base revenue increase without the opportunity for adequate review and examination.

The SRA agreed with Department and the OAG that, notwithstanding a prudence review in 2024, this prominent feature of the Proposal strays too far from established ratepayer-protections for non-interim rate increases. Accordingly, the SRA supports the DOC and OAG in their request that the Proposal not be approved. The SRA, however, represents many ratepayers in member cities that need rate relief during these unique circumstances. With the necessary pre-approval ratepayer protections, the SRA remains interested in ratepayer 2022 mitigation proposals.

G. City of Minneapolis – Reply Comments

The City of Minneapolis agreed with concerns raised by the Department and the OAG recommended that the Proposal not be approved without additional review and proceedings. Instead, the City recommended that the Commission find exigent circumstances exist such that a departure from the statutory interim-rate formula is appropriate and set interim rates at or below the Proposal's $39.659 million level.

H. CenterPoint Energy – Reply Comments

CenterPoint continued to support its proposal and stated its request is in the public interest because it limits the rate increase impact, stabilizes and reduces customer bills compared to the status quo, builds in procedural and substantive safeguards, reduces the demands on regulatory resources, and gives the Company a degree of financial certainty so it can focus its resources on improving its system and achieving its environmental goals. The Proposal balances ratepayers' interests with the Company's by stabilizing 2022 and 2023 rates and reducing the risk of additional economic hardship to individuals, families, and businesses already experiencing financial strain as a result of the pandemic and ongoing recovery of the "extraordinary gas costs" arising from the February Market event. At a time when the commodity cost of gas is expected to be higher than in previous years, the rate certainty afforded by the Proposal is reasonable in these unique circumstances.

CenterPoint is sympathetic to the concerns filed by the OAG and DOC and stated that it has always expected a thorough prudence review of its capital investments. If the Proposal is approved, the Company anticipates that this review would occur in its next rate case.

As shown in Table 7, CenterPoint indicated that $65 million of the $67 million sought in the rate case is attributable to the incremental net plant additions (and the Company's proposed increased ROR in the Rate Case) since the Company's 2020 test-year rate case.

Table 7 – 2022 Test Year Incremental Plant Revenue Requirement

Net Plant Test Year 2020	$1,612,972
Net Plant Test Year 2022	$2,036,555
Difference (Incremental Plant)	$423,583
Revenue Requirement of Incremental Plant	$40,780
Associated ADIT and Depreciation of Incremental Plant	$24,097
Total Revenue Requirement of Incremental Plan	$64,876

As shown in Table 8, CenterPoint pointed out that its annual capital investments have averaged over $200 million for the last five years. The Company expects those investments to grow over the next five years.[19]

Table 8 – 2016-2020 Capital Investments

	2016	2017	2018	2019	2020	Total
Capital Spend (Millions)	$193	$189	$233	$257	$260	$1,136

As shown in Table 9, CenterPoint provided the 2022 revenue requirement of the average rate base balance for 2022 and how the capital true-up would be calculated.

Table 9 – True-Up Baseline and Calculation Formula ($000s)

	Forecast	Actual
2022 Net Plant/ADIT	$1,690,384	
ROR	6.86%	6.86%
Required Return	$115,960	$0
2022 Depreciation	$110,949	
Total Capital[20]	$226,909	$0

Finally, CenterPoint stated that it proposed to begin to track and defer any calculated differences arising from a change in income tax – beginning on the effective date of such a statutory change. The Company would then request the Commission to allow recovery of the tracked amounts to begin, either as a stand-alone petition or as part of the Company's next rate case. Under the Proposal, CenterPoint did not propose to automatically begin to recover or

[19] Docket No. G-008/GR-21-435, Singleton Direct at 31.

[20] If actual is lower than the forecast, then the difference would be refunded.

refund any under- or over-collection stemming from a change in tax code. The SRA's question whether a change in tax requirements should be reflected as a change to base rates or as a rider surcharge can be addressed in the future, depending on the timing and magnitude of the change. In the event it seeks to begin recovery of any changes before its next rate case, CenterPoint will propose a methodology at that time.

IV. Staff Analysis

Other than ECC, no other party explicitly supported CenterPoint's proposal. Objections center around parties' lack of time to be able to perform analysis and prudence reviews. Absent the ability to do so, parties question whether Proposal approval can result in fair and reasonable rates.

Since Staff agrees that parties had little time to perform analysis, Staff will address various parts of the Proposal's components and provide supplementary information that the Commission may find helpful so that it can make a more informed decision.

1. Process for Resolving Rate Stabilization Plan, if Approved.

Staff notes that CenterPoint's Rate Stabilization Plan is somewhat different from the recent stay outs that have been approved by the Commission. In Xcel Docket Nos. E-002/M-19-688 and E-002/M-20-743, Xcel's proposals resulted in a withdrawal of the rate case. In this proceeding, Staff believes that approval of the Rate Stabilization Plan would instead be a resolution of the rate case. In other words, approving the Rate Stabilization Plan would require the Commission to resolve the rate case in Docket No. G-008/GR-21-435 by approving an increase to base rates of $39.659 million.

Staff does not take any position on whether the Rate Stabilization Plan should be approved but does note that there appears to be a path in Minn. Stat. § 216B.16 to do so if the Commission chooses that path. Normally, when a rate case is filed the Commission suspends the proposed rates; establishes interim rates; and refers the matter to a contested case to investigate whether the proposed rates are reasonable. If the Rate Stabilization Plan is approved, Staff believes the procedural path would be to make a determination that all questions of reasonableness are resolved to its satisfaction, and that a final rate increase of $39.659 would be reasonable, pursuant to Minn. Stat. § 216B.16, subdivision 2. If the Commission approves the Rate Stabilization Plan in this proceeding, it should implement that decision in the rate case Docket No. G-008/GR-21-435.

2. Net Plant in Service and Depreciation

As previously stated, CenterPoint's Proposal requests $39.659 million increase as opposed to the $67.065 increase sought in its rate case.

In the new rate case initial filing, total net plant in service increases from $1.61 billion to $2.04

billion. Using the (implied) 9.06% ROE approved in CenterPoint's previous rate case,[21] Staff estimates that the additional revenue requirement impact of net plant increase to be approximately $38 million. The relevance of the 9.06% ROE assumption is discussed in the ROE section below.

Additionally, depreciation expense between rate cases has increased from $87.4 million to $115.4 million – a $28.0 million difference. These two drivers amount to the vast majority of the requested $67 million increase in the rate case. In order to assess possible adjustments to net plant and depreciation that could result from a contested rate case, Staff examined adjustments to those items in the Commission's Orders in CenterPoint's last three rate cases. As summarized in Table 10, adjustments to net plant ranged from $826,000 (0.05%) to $19.7 million (2.16%) and adjustments to depreciation ranged from $550,000 (0.63%) to $8.3 million (9.83%).

Table 10 – Adjustments to Net Plant and Depreciation ($000s)

	Net Plant Adjustment, $	Net Plant Adjustment, %	Depreciation Adjustment, $	Depreciation Adjustment, %
Docket No. G-008/GR-15-424	$19,707	2.16%	$817	1.12%
Docket No. G-008/GR-17-285	$1,958	0.15%	$8,311	9.83%
Docket No. G-008/GR-19-524	$826	0.05%	$550	0.63%
Average	$7,497	0.79%	$3,226	3.86%

Using this information, a 2.16% adjustment to net plant in the pending rate case would result in a $44 million adjustment to net plant with a revenue requirement impact of $4.0 million. A 9.83% adjustment to depreciation would reduce that expense by $11.3 million. Collectively, these two hypothetical adjustments would reduce the rate case revenue requirement by $15.3 million. In other words, if one were to assume that highest adjustments made in recent cases were applied to CenterPoint's pending rate case filing and reduced CPE's request by $15.3 million, the remaining revenue requirement would still be higher than the $39.659 million requested in this Proposal.

3. Asymmetrical Capital True-Up Mechanism

CenterPoint confirmed that, if the Proposal is approved, it expects a prudence review of capital costs in this proceeding will be performed during its next rate case. The Company, as shown in table 9, has also provided the formula to be used for the annual capital true-ups. The true-up's asymmetrical feature and the prudence review to be performed in the next rate case seem to provide additional insulation from possible harm for ratepayers.

4. Extended Recovery of Extraordinary Gas Costs

Staff agrees that extending the recovery period to 63 months will not save ratepayers over

[21] The 2019 settlement explicitly specified an ROR but not an ROE; however, that ROR implied a 9.06% ROE.

time. The extension simply allows ratepayers more time to pay smaller amounts albeit over a longer period of time. However, a "Net Present Value (NPV) argument" can be made that the longer recovery period reduces the "value" of those payments; thus, "saving" ratepayers money.

5. Approval of Income Tax Rider

Staff's interpretation of this component is that, if there is no 2022 or 2023 changes to the tax rates, the proposed rider becomes irrelevant. Staff's opinion is that, if corporate taxes go up, all regulated utilities will seek relief; therefore, CenterPoint's proposed rider may be an efficient way to prospectively address this issue.

6. Property Tax Tracker, No Amortization

CenterPoint stated that the currently it has a regulatory asset balance of $3.6 million in this tracker. If the Proposal is approved, the tracker will continue to record differences between actual taxes and those recover in rates; thus, ensuring that the Company ultimately collects (and ratepayers pay) actual costs. Other than the NPV argument, ratepayers will ultimately pay the same amount over time.

7. Continuation of COVID-19 Deferral, No Amortization

Other than the NPV argument, deferring cost recovery of COVID-19 costs will not save ratepayers over time. It just extends the time before they begin paying for them.

8. Proposed Environmental Commitments

CenterPoint offered to make annual compliance filings updating its progress in these projects; however, the Company did not propose a date for these filings. The Commission may want to establish a specific deadline for those filings.

9. ROE

CenterPoint's currently approved 9.06% ROE is the lowest amongst all Minnesota regulated utilities, gas or electric. Furthermore, that 9.06% is also the lowest ROE approved lowest for any Minnesota regulated utility since 2000. Staff believes that, if CenterPoint's Proposal is rejected, the ROE that would prospectively be awarded in the Company's rate case will likely be higher. In CenterPoint's rate case, each basis point (i.e., 0.01%) increase will translate to an approximate increase of $125,000; thus, adding an additional cost risk when comparing the Proposal to the rate case.

V. Decision Alternatives

Rate Stabilization Plan Statute and 2021 Rate Case

1. Approve CenterPoint's Rate Stabilization Proposal. (CPE, ECC)

2. Do not approve CenterPoint's Rate Stabilization Proposal. (DOC, OAG, SRA, City of Minneapolis)

Capital True-Up

3. Approve CenterPoint's Capital True-Up calculation methodology, as shown in Table 9. (CPE, ECC)

4. Approve a different Capital True-Up calculation methodology than the one shown in Table 9.

Compliance Filings

5. Order CenterPoint's make its annual Capital True-Up by March 1 of each year. (CPE)

6. Order CenterPoint to make annual compliance filings on its proposed environmental commitments by March 1 of each year. (Staff modified alternative of CPE's proposal)