Staff Briefing Papers

Meeting Date	August 18, 2022	Agenda Item 1*

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

Docket Nos. **G-008/GR-21-435**
G-008/MR-21-436

In the Matter of the Application by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota

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 accept the Offer of Settlement and adopt the Administrative Law Judge's Findings of Fact, Conclusions of Law, and Recommendation to Approve Settlement?

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✓ **Relevant Documents**	**Date**
CenterPoint Energy, Department of Commerce, Office Attorney General– Residential Utilities Division, Clean Energy Organizations and Suburban Rate Authority – Settlement	March 14, 2022
ALJ - Findings of Fact, Conclusions and Recommendation to Approve the Parties' Settlement	May 12, 2022
<u>**Exceptions to ALJ Report**</u>	
The International Union of Operating Engineers Local 49	May 24, 2022
LIUNA	May 31, 2022

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I. Statement of the Issues

Should the Commission accept the Offer of Settlement and adopt the Administrative Law Judge's Findings of Fact, Conclusions of Law and Recommendation to Approve Settlement?

II. Introduction

On May 12, 2022, the Administrative Law Judge (ALJ) Ann C. O'Reilly issued her Findings of Fact, Conclusions of Law and Recommendation to Approve Settlement (ALJ Report). If the Minnesota Public Utilities Commission (Commission) approves the Settlement, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy or the Company) requested $67.1 million rate increase, or approximately 6.5 percent, would be reduced to $48.5 million, or approximately 4.2 percent.

III. Background

On November 1, 2021, CenterPoint Energy filed a request for a general increase in its natural gas rates. Based on a rate of return on common equity of 10.20 percent, the Company requested an increase over existing rates of approximately $67.1 million, or 6.5 percent. CenterPoint Energy proposed a forecasted 2022 calendar test year, with approximately 905,924 customers and throughput of approximately 188.7 MDT of natural gas per year.

On December 30, 2021, the Commission ordered an interim rate increase, subject to refund, of $42.4 million, on an annualized basis. In its Interim Rate Order the Commission determined the exigent circumstances existed, and the circumstances justified deviating from the interim-rate formula set forth in statute. The Commission reviewed the Company's interim-rate proposal with the economic, safety, and administrative challenges posed by COVID-19 in mind. Ultimately, the Commission found that limiting the increase in incremental rates for the residential class to 3.9%, combined with extending the amortization for gas costs from February 2021, will provide needed, immediate relief, and will result in just and reasonable rates. Since the exigent circumstances did not apply to non-residential classes, their interim rate increase was 5.1%. Interim rates went into effect on January 1, 2022.[1]

On the same date, the Commission issued its Notice and Order for Hearing, setting the matter for a contested case hearing. Administrative Law Judge Ann C. O'Reilly of the Minnesota Office of Administrative Hearings (OAH) was assigned to conduct the case.

The active parties in this case are: (1) CenterPoint Energy, (2) the Minnesota Department of Commerce, Division of Energy Resources (Department), (3) the Minnesota Office of Attorney General – Residential Utilities Division (OAG), (4) Fresh Energy and the Minnesota Center for

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[1] *In the Matter of the Application by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-21-435, ORDER SETTING INTERIM RATES at 7 (December 30, 2021).

Environmental Advocacy (MCEA), together known as the Clean Energy Organizations (CEOs), and (5) the Suburban Rate Authority (SRA).

A total of four public hearings were held. Two in person public hearings were held in Golden Valley and Mankato, Minnesota, on February 22 and 24, 2022, respectively. Two virtual public hearings were held on March 1, 2022, using WebEx technology. Members of the public were able to join the virtual public hearing via an internet or telephone connection. Written comments from members of the public were received through April 11, 2022.[2]

On February 11, 2022, all parties met for initial settlement discussions and on February 28, 2022, the parties engaged in mediation conducted by Ms. Kelly M. Anderson of the OAH. Through that mediation, the Settling Parties resolved all issues in this proceeding and set forth the terms of their agreement in this Settlement.

On May 24, 2022, and May 31, 2022, the International Union of Operating Engineers Local 49 (IUOE Local 49) and LIUNA, respectively, filed comments on the Settlement.

IV. Public Comments

The ALJ found:

> 15. Public hearings were held in Golden Valley and Mankato, Minnesota on February 22 and 24, 2022, respectively, and two virtual public hearings were held on March 1, 2022. Members of the public could attend the virtual hearings either through internet connection on a computer, tablet, or smartphone, or by telephone.

A. Comments Made at Public Hearings

Twenty-four members of the public provided oral comments or asked questions at the public hearings in this matter – eight in Golden Valley, four in Mankato, and 13 during the virtual public hearings.[3] All commenters opposed the rate increase request.[4]

B. Written Comments

In addition to comments made at the public hearings, the Commission received approximately 129 written comments regarding the Company's rate increase request, all but two of which opposed a rate increase.[5]

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[2] Public hearing and written comments are available through the eDockets system.

[3] *See* Hrg. Tr. Vol. I through IV.

[4] *Id.*

[5] ALJ Report ¶26.

C. Summary of Public Comments

The oral and written public comments fell into four general categories: (1) comments arguing that rate increases would be unfair, unnecessary, unreasonable, or excessive; (2) comments urging the Commission to consider environmental issues, renewable energies, and climate change; (3) comments regarding the recovery of gas costs related to the February 2021 cold weather event; and (4) comments opposing rate increases due to current corporate revenues, recent shareholder profits, and high executive compensation.[6]

An overwhelming number of commenters (nearly all) expressed disapproval of any rate increase. Most of these comments asserted that CenterPoint's requested rate increase is unfair, unnecessary, unreasonable, or excessive. These commenters asserted that: (1) rate hikes are too frequent and unnecessary, given CenterPoint's reported revenues and profits; (2) the Company's rate increase was the result of corporate "greed" as opposed to the need to improve services and reliability for customers; (3) inflation, the lingering effects of the Covid-19 Pandemic, and other increases in gas and utility costs, were already stretching the budgets of low and middle income Minnesotans to the point where many ratepayers will be unable to absorb these additional costs; (4) the rate increases will be particularly taxing on fixed-income residential customers; (5) the Company's requested increase and interim rates did not appear accurate when many households are already seeing increases of up to 50 percent on their bills (due to gas cost increases); (6) the proposed rate increase would have a "double-whammy" effect with the increases in gas costs related to the February 2021 cold weather event; (7) given the lack of choice customers have for public gas utilities, that CenterPoint appears to be exploiting its "monopoly" to favor shareholder profits over customer needs; and (8) it is unfair for the Commission to impose interim rate increases when ratepayers do not have the opportunity to review or oppose those increases.[7]

The second general group of commenters expressed concerned about the environmental effects of energy creation and the societal costs of climate change. These commenters urged the Commission to work toward reducing the dependence on fossil fuels, as opposed to rewarding companies, by increasing rates, that continue to encourage energy use. Several of these commenters expressed disapproval of CenterPoint marketing campaigns that urge or incentivize the use of gas appliances. According to these commenters, ratepayers should not pay to fund advertising campaigns that work against decreasing the dependence on fossil fuels.[8]

A subset of the commenters addressing environmental matters was Fresh Energy, a member of the intervenor CEOs. A group of 37 Fresh Energy members submitted written comments. These comments urged the Commission to: (1) require CenterPoint to reduce its investment in new gas line extensions; (2) consider the future of natural gas before approving rates that

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[6] ALJ Report ¶28.

[7] ALJ Report ¶29.

[8] ALJ Report ¶30.

include investments in updating current systems; (3) require CenterPoint to incorporate hydrogen pilots into its regulatory framework; and (4) encourage utility companies to invest more in sustainable energies so as to combat the negative effects of climate change.[9]

There were two commenters who urged the Commission to reduce the basic charge for residential and small commercial/industrial customers and substantially increase the per-unit fuel charge for high-volume customers like large commercial/industrial users. According to these commenters, the Company's proposed rate structure results in a lower per-unit monthly bill for high-volume consumers, which is contrary to the policy of encouraging energy conservation. Such a rate structure does not incentivize large greenhouse gas emitters to reduce their high gas usage.[10]

The third topic of comments received involved the recovery of gas costs related to the February 2021 cold weather event, which is being addressed in other Commission dockets. While commenters were advised at each public hearing that the cost-of-gas related to the February 2021 cold weather event was not a subject of this docket, there were still a number of comments received regarding the recovery of gas costs. Those comments argued that the increase in gas costs related to the February 2021 cold weather event should not be assumed by ratepayers but, instead, should be absorbed by the shareholders. These commenters argued that the increase in gas costs during that event were the result of mismanagement of risk or other malfeasance by Company executives and staff. The commenters asserted that, rather than passing on the costs to ratepayers, the Company should absorb these costs by reducing operating costs and executive compensation. According to several commenters, company executives should bear the brunt of the excessive gas costs because they were the cause of, or were in control of the decisions that resulted in, the Company having to pay such high gas prices. Adding these costs to another rate increase would unfairly impact ratepayers, particularly residential customers.[11]

The final general category of comments involved opposition to rate increases because of CenterPoint Energy's reports of high earnings and profits, as well as "excessive" compensation paid to corporate executives. These commenters question why the Company is seeking to increase costs to ratepayers when the Company is reporting historic revenues. They assert that rate increases will only serve to "line the pockets" of executives who are already annually receiving millions of dollars in compensation – far more than the household incomes of average ratepayers. According to these commenters, executive compensation at CenterPoint Energy was in excess of $41 million last year alone. This group of commenters assert that ratepayers should not be the "first resource to tap" when the Company wants to pay its executives or shareholders more money. Instead, executives should be taking pay-cuts and the Company should be cutting costs, rather than increasing rates. They argue that, if fewer executive bonuses and reasonable compensation were paid, the Company would not need to increase

[9] ALJ Report ¶31.

[10] ALJ Report ¶32.

[11] ALJ Report ¶33.

rates. Several of these commenters deemed the rate increase as an example of corporate "greed" and the "exploitation of the poor and middle class." Other commenters questioned what CenterPoint Energy will do with the extra $64 million the Company is seeking and if those funds will actually benefit the average ratepayer.[12]

V. Rate Case Settlement

The Rate Case Settlement resolved all issues between all parties which, if approved, would result in a $48.5 million rate increase, or 4.2 percent.

On May 12, 2022, Judge O'Reilly issued her ALJ Report recommending approval of the Settlement as shown below:[13]

> 44. As detailed in the Settlement, the Parties were able to resolve all issues in the case. The Settlement succinctly states the Parties' positions on each of their applicable issues and explains the issue's resolution. The Settlement needs little explanation, as reviewing the Parties' positions and comparing party positions to the terms of the Settlement indicates the compromises that all of the Parties made to achieve a global settlement.
>
> 45. The Administrative Law Judge has reviewed the Settlement and recommends that the Commission find it to be in the public interest and supported by substantial evidence in the record. The rates that will result from implementing the Settlement will be just and reasonable.
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> 46. The Administrative Law Judge finds the Settlement to be comprehensive and each disputed issue is reasonably resolved based on substantial record evidence. The Administrative Law Judge recommends that the Commission approve the Settlement and highlights the following factors for the Commission's consideration.
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> COL 5. The record supports the resolution of disputed issues as set out in the Settlement. The Settlement's disposition of disputed issues resolves them in a manner consistent with the public interest and on the basis of substantial evidence.
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> COL 6. Rates set in accordance with the Settlement would be just and reasonable.

On May 24, 2022, and May 31, 2022, two groups that were not official parties: 1) the International Union of Operating Engineers Local 49 (IUOE Local 49), and 2) LIUNA Minnesota and North Dakota (LIUNA), respectively filed exceptions/comments to the ALJ Report.

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[12] ALJ Report ¶34.

[13] ALJ Report ¶ 44-46 and COL 5 and 6.

1. Staff Comments

The Settlement resolves all issues raised by the various parties in this proceeding. Considering that the proposed $67.1 million rate increase has been reduced to $48.5 million, the Settlement appears to be reasonable.

With respect to the eight issues listed in the Commission's December 30, 2021, Notice of and Order for Hearing, and repeated in the Statement of Issues on pages 2 and 3 of the ALJ's May 12, 2022 Report, the ALJ found the parties resolved the key issues in this matter through a combination of a facilitated mediation and separate negotiations.

2. Decision Alternatives

1. Accept the Offer of Settlement and adopt the ALJ Findings of Fact, Conclusions of Law and Recommendation to Approve Settlement. (ALJ, all Parties)
2. Modify the Offer of Settlement as discussed herein.
3. Reject the Offer of Settlement.

VI. Financial Issues

A. Charitable Contributions

1. Introduction

Pursuant to Minnesota Statute section § 216B.16, subdivision 9, fifty percent of prudent, qualified contributions are allowed as recoverable operating expenses. This issue was not originally disputed; however, CenterPoint Energy discovered an incorrect adjustment in testimony.

2. Party Positions

CenterPoint Energy indicated in testimony that it included $53,797 in the test year for allowable charitable contributions. However, after developing the cost of service for this case and prior to filing its Direct Testimony, the Company discovered an incorrect base year adjustment, meaning it had inadvertently included $219,367 in charitable contributions in the test year and indicated it would remove these additional expenses.

The Department agreed with this adjustment.

3. Settlement

Parties agreed to remove $166,000 in charitable contributions from the test year.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

101. Order that $166,000 in charitable contributions be removed from the test year. (ALJ, all Parties)
102. Take some other action.

Reference to Record
Ex. CPE-5 at 30-34, Sched. 22 (Gilcrease Direct)
Ex. DOC-1 at 32-33 (Morrissey Direct)
Settlement at 4

B. Dues

1. Introductions

The issue was originally disputed between CenterPoint Energy, the Department, and OAG.

2. Party Positions

CenterPoint Energy indicated in testimony that it included $613,775 in the test year for dues expenses. However, the Department discovered that an adjustment to remove certain unrecoverable dues was inadvertently not included in the initial filing. The Department also discovered that the base year included a portion of American Gas Association (AGA) dues that should have been charged to other jurisdictions and should have been removed.
In Direct Testimony, the OAG recommended complete disallowance of AGA dues because of the uncertainty surrounding the volume of lobbying activities performed by the AGA and whether these activities result in direct benefits for Minnesota ratepayers. Additionally, the OAG also recommended that an additional $12,025 in dues to the Minnesota Utility Investors (MUI) organization be removed.

3. Settlement

The Parties agreed to remove $464,000 in dues from the test year. This amount is comprised of approximately $203,000 related to AGA dues, approximately $134,000 related to AGA dues for other jurisdictions, approximately $115,000 related to unrecoverable dues, and $12,025 in MUI dues.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

103. Order that dues expense be reduced by $464,000. (ALJ, all Parties)
104. Take some other action.

Reference to Record
Ex. CPE-5 at 36 (Gilcrease Direct)
Ex. DOC-1 at 33-36 (Morrissey Direct)
Ex. OAG-1 at 12-20 (Lee Direct)
Settlement at 4

C. Employee Awards, Gifts and Travel and Entertainment Expenses

1. Introduction

Minnesota Statutes § 216B.16, subdivision 17, requires a public utility filing a general rate case to supply schedules separately itemizing all travel, entertainment and related employee expenses as specified by the Commission. This issue was originally disputed between CenterPoint Energy and the Department, and OAG.

2. Party Positions

CenterPoint Energy indicated in testimony that it removed certain employee gift/award expenses that were included in allocations from the Service Company. However, the OAG discovered that an adjustment to remove approximately $188,000, plus $143 in expenses related to HomeServe, was not included in the initial filing.

The Department noted that, through discovery, CenterPoint Energy became aware it inadvertently included corporate allocated employee gifts/awards expense in the test year.

Additionally, in Direct Testimony, the OAG recommended adjustments of $26,901 in employee expenses due to insufficient business descriptions and $9,114 of employee expenses due to the nature of the cost or amount, totaling $36,015 recommended to be removed from the test year.

3. Settlement

The Settling Parties agree to remove $225,000 related to employee gifts and awards, HomeServe, and employee expenses from the test year.

4. Staff Comments

The Settlement’s handling of this issue appears to be reasonable.

5. Decision Alternatives

105. Order that employee gifts and awards be reduced by $225,000. (ALJ, all Parties)
106. Take some other action.

Reference to Record
Ex. CPE-8 at 27-29 (Townsend Direct)
Ex. DOC-1 at 36-38 (Morrissey Direct)
Ex. OAG-1 at 25-37 (Lee Direct)
Settlement at 5

D. Non-Qualified Benefits

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

In Direct Testimony, CenterPoint Energy indicated that, while it views non-qualified benefits as an important component of overall compensation and may request recovery of these expenses in the future, it had removed these expenses from the test year in order to reduce the number of contested issues in this case. In response to Department discovery, the Company acknowledged that, despite its intent to remove these expenses, certain non-qualified expenses were included in the test year in error.

3. Settlement

The Parties agree to remove $25,000 in operating expenses to remove non-qualified benefits from the test year.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

107. Order that non-qualified benefits be reduced by $25,000. (ALJ, all Parties)
108. Take some other action.

Reference to Record
Ex. CPE-7 at 40 (Villatoro Direct)
Ex. DOC-2 at 20-22 (Johnson Direct)
Settlement at 5

E. Liquefied Natural Gas Sales Revenue

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy's initial filing included $386,096 in projected revenues on Liquefied Natural Gas (LNG) sales.

In Direct Testimony, the Department recommended using actual LNG sales for the 12-month period ending December 31, 2021, or $667,863 for the purposes of setting a test year revenue level, or an increase of $299,767 in LNG sales revenue from CenterPoint Energy's filing.

3. Settlement

The Parties agree to increase LNG sales revenue by $300,000, from the level proposed in the filing and to correspondingly increase expenses by $173,000 to reflect the incremental O&M that would be associated with those sales.

4. Staff Comments

The Settlement's handling is consistent with the handling of this issue in both the 2017 and 2019 rate case settlements and appears to be reasonable.

5. Decision Alternatives

109. Order that LNG sales revenue be increased by $300,000. (ALJ, all Parties)
110. Order that LNG sales expenses be increased by $173,000. (ALJ, all Parties)
111. Take some other action.

Reference to Record
Ex. CPE-13 at 12-13 (Dean Direct)
Ex. DOC-2 at 7-12 (Johnson Direct)
Settlement at 5-6

F. Property Tax Expense

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

In its initial filing, CenterPoint Energy forecasted test year property tax expenses using the Company's forecasted plant-in-service and accumulated depreciation as of the end of 2021, the forecasted net operating income to be used in the Minnesota Department of Revenue

(MNDOR) appraisal model for the 2022 tax year, and the anticipated methodology to be used in 2022 by MNDOR. CenterPoint Energy also forecasted property tax expense related to stored gas in Oklahoma. As a result, CenterPoint Energy forecasted a $46,440,252 test year property tax expense.

In Direct Testimony, the Department recommended reducing property tax expenses by $77,268 based on actual 2021 tax year Oklahoma property taxes paid and proposed tax statements received after the initial petition was filed.

3. Settlement

The Parties agree to remove $77,000 in property tax expense from the test year.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

112. Order $77,000 in property tax expense be removed from the test year. (ALJ, all Parties)
113. Take some other action.

<u>Reference to Record</u>
Ex. CPE-11 at 5-7 (Hyland Direct)
Ex. DOC-3 at 3-10 (Soderbeck Direct)
Settlement at 6

G. Property Tax Tracker Amortization

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

In its filing, CenterPoint Energy included a credit to the property tax tracker, established effective October 1, 2017, for one-fourth of a refund for the 2017 tax year recovered by the Company through litigation and that the resulting tracker balance be amortized over two years, as CenterPoint Energy forecasts filing its next rate case in the fall of 2023.

The Department agreed with the two-year amortization period, but recommended the entire 2017 tax year refund be credited to the property tax tracker.

3. Settlement

The Parties agree to credit the property tax tracker balance for the full refund for the 2017 test year, reducing the test year amortization expense by approximately $2.8 million.

4. ALJ Report

The ALJ noted the following in her findings:

> 53. Seventh, in the Settlement, the Parties agree to credit the Company's property tax tracker by approximately $5.7 million to reflect a property tax refund received by the Company following successful appeal of its 2017 property taxes, reducing the test year amortization expense, and therefore reducing the Company's rate increase, by $2.8 million.

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

6. Decision Alternatives

114. Order the property tax expense to be reduced by $2.8 million. (ALJ, all Parties)
115. Take some other action.

Reference to Record
Ex. CPE-11 at 7-11 (Hyland Direct)
Ex. CPE-5, Sched. 33.6 at 1 (Gilcrease Workpapers)
Ex. DOC-3 at 10-15 (Soderbeck)
Settlement at 6-7
ALJ Report ¶ 53

H. Late Payment Revenue and Bad Debt Expense

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

In its initial filing, CenterPoint Energy stated it forecasted bad debt expense and late payment revenues by applying a factor to revenue. The bad debt factor is the ratio of 2020 actual bad debt expense (not including amounts related to COVID bad debt) divided by 2020 firm revenue. The late payment revenue factor uses the ratio of the 3-year (2017-2019) average late payment revenue to firm revenue. Those factors were applied to test year firm revenue, plus the requested rate increase from this Rate Case and revenue from the recovery of gas costs related to the impact of the February 2021 cold weather on the natural gas utilities and their customers (February Event).

In Direct Testimony, the Department observed that CenterPoint Energy used inconsistent amounts of bad debt expense in calculating the ratio as compared to amount of bad debt expense used in calculating the bad debt adjustment which effectively caused the resulting test year bad debt expense amount to be overstated by $536,119.

Additionally, the Commission ordered the Company to extend the recovery of February Market event gas costs to occur over a total of 63 months. The Department argued that, based on extending the recovery period, the firm revenue that should be used to calculate bad debt expense and late payment revenues should be adjusted to reflect the extension of time to recover the gas costs related to the February Market event.

3. Settlement

The Parties agreed to reduce bad debt expense by $1,184,000 ($536,000 due to the incorrect bad debt factor and $648,000 due to the extension of time to recover the gas costs related to the February Market event) and also decrease late payment revenue by $348,000 due to the extension of time to recover the gas costs related to the February Market event.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

116. Order $1,184,000 in bad debt expense removed from the test year. (ALJ, all Parties)
117. Order $348,000 in late payment revenue removed from the test year. (ALJ, all Parties)
118. Take some other action.

Reference to Record
Ex. CPE-5 at 16-18, 22-26 (Gilcrease Direct)
Ex. DOC-1 at 5-11 (Morrissey Direct)
Settlement at 7

I. Interest Synchronization

1. Introduction

This issue was not originally disputed; however, the Department noted that interest synchronization is used in ratemaking to determine the amount of interest expense that is used in the calculation of income tax. Consequently, when an adjustment is made to test year rate base, it also is necessary to make an interest synchronization adjustment which modifies the income taxes used in operating income.

2. Settlement

Parties agree to make an interest synchronization adjustment which modifies the income taxes used in operating income which reduces income tax by $115,000.

3. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

4. Decision Alternatives

119. Order interest synchronization and reduce income tax by $115,000. (ALJ, all Parties)
120. Take some other action.

Reference to Record
Ex. DOC-1 at 45-46 (Morrissey Direct)
Settlement at 8

J. Beginning Plant Balance and Rate Base

1. Introduction

In its filing, CenterPoint Energy stated its gross plant beginning balance based on its then projected balance as of December 31, 2021, and developed its revenue increase request using that projected balance, together with its then projected capital additions for the test year. Subsequently, with the passage of time, actual beginning plant balance became known.

2. Settlement

The Parties agree that, consistent with past CenterPoint Energy rate cases, final rates should reflect: (1) the Company's actual plant balance at the beginning of the test year; (2) the associated adjusted depreciation expense and accumulated deferred income taxes; and (3) the trued-up EDIT balance and associated amortization true-up based on the actual tax return filed subsequent to the initial filing.[14]

3. ALJ Report

The ALJ noted the following in her findings:

> 52. Sixth, a number of the disputed issues are resolved in a transparently just and reasonable manner. These include the use of actual plant balances at the beginning of the test year rather than the Company's projected balance, updating the cost of gas, and adopting multiple financial adjustments as proposed by the DOC and OAG.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

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[14] The adjustments are incorporated in Attachment 1 of the Settlement.

5. Decision Alternatives

121. Approve Parties' agreement to (1) to use the Company's actual plant balance at the beginning of the test year; (2) adjust depreciation expense and accumulated deferred income taxes accordingly; and (3) to use the trued-up EDIT balance and associated amortization true-up based on the actual tax return filed subsequent to the initial filing. (ALJ, all Parties)
122. Take some other action.

Reference to Record
Ex. CPE-12 at 5-10 and Schedules 2-4 (Poppie Direct)
Ex. CPE-24 at Schedules 3-4, Workpaper 1 (Poppie WP)
Ex. CPE-2, at 99 (Bulkley Direct)
Ex. DOC-2 at 3-9 (Johnson Direct)
Ex. OAG-1 at 28-30 (Lee Direct)
Settlement at 8, Attachment 1
ALJ Report ¶ 52

K. Permanent Records Integrity Management Excellence

1. Introduction

This issue was originally disputed between CenterPoint Energy and the OAG.

2. Party Positions

In its filing, CenterPoint Energy included $1.2 million in test year expenses associated with the Company's PRIME project. The PRIME project was completed in 2020 and employees assigned to it are now performing other utility work for the Company.

In its direct testimony, the OAG recommended removal of these expenses as the PRIME project is now complete.

3. Settlement

The Parties agreed to remove approximately $1.2 million in test year expenses related to the PRIME project.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

123. Order $1.2 million of PRIME project expenses removed from the test year. (ALJ, all Parties)
124. Take some other action.

Reference to Record
Ex. OAG-1 at 6-8 (Lee Direct)
Settlement at 8

L. Property Insurance Expense

1. Introduction

The issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy included approximately $5.5 million of property insurance expense in the test year, using its 2020 base year expense adjusted for inflation.

The Department recommended using 2019 actual property insurance expense adjusted for inflation, stating that 2020 actual expenses appeared significantly higher than other recent years. The Department recommended reducing test year property insurance expenses by $1.5 million.

3. Settlement

The Parties agreed to reduce test year property insurance expenses by $1.5 million.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

125. Order $1.5 million in property insurance expense removed from the test year. (ALJ, all Parties)
126. Take some other action.

Reference to Record
Ex. CPE-5 at 2-3 (Gilcrease Direct)
Ex. CPE-5, Sched. 4-1 at 3, 7, 67 (Gilcrease Sched. 4)
Ex. DOC-2 at 21-24 (Johnson Direct)
Settlement at 9

M. Rate Case Expense

1. Introduction

This issue was originally disputed between CenterPoint Energy and OAG.

2. Party Positions

CenterPoint Energy projected Rate Case expenses of $2.4 million for this proceeding and proposed recovery over a two-year amortization period.

The OAG did not dispute the two-year amortization of Rate Case expenses but recommended a reduction in these expenses of approximately $422,000. Specifically, the OAG argued: (1) CenterPoint Energy's requested rate case expenses for the 2022 test year are unreasonably inflated due to its assumption that the current rate case would be fully litigated; and (2) that it was inappropriate for CenterPoint Energy to include costs for intervenor compensation when no intervenor has sought compensation from the Company in its past two rate cases and there is no indication that any party will seek intervenor compensation in the current rate case.

3. Settlement

The Parties agreed to reduce Rate Case expenses by $422,000, resulting in a test year expense reduction of $211,000.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

127. Allow CenterPoint Energy to recover its rate case expenses over a two-year amortization period. (ALJ, all Parties)
128. Order removal of $422,000 in rate case expense resulting in a test year expense reduction of $211,000. (ALJ, all Parties)
129. Take some other action.

Reference to Record
Ex. CPE-5, Sched. 27 (Gilcrease Direct)
Ex. CPE-35, Workpapers 27.1, 27.2 (Gilcrease WP)
Ex. OAG-1 at 21-25 (Lee Direct)
Settlement at 9

N. CAM Allocation

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy's filing included certain costs common to its regulated and unregulated operations, with the regulated portion of those costs apportioned using the factors set forth in Company's Cost Apportionment Manual (CAM).

The Department reviewed the CAM allocation factors and recommended a reduction in allocated costs of approximately $1.9 million.

3. Settlement

The Parties agreed to reduce test year indirect costs related to regulated operations by $1.959 million.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

130. Order removal of $1.959 million of indirect costs related to regulated operations. (ALJ, the Parties)
131. Take some other action.

Reference to Record
Ex. CPE-5 at 61-63 (Gilcrease Direct)
Ex. DOC-1 at 39-44 (Morrissey Direct)
Settlement at 9-10

O. Marketing Programs

1. Introduction

The issue was originally disputed between CenterPoint Energy and the OAG.

2. Party Positions

CenterPoint Energy's filing included a request to recover the costs of three marketing programs -- the Residential Water Heater, Foodservice, and C&I Market Rebate programs – with a total test year cost of approximately $315,000.

The OAG recommended removal from the test year of the costs associated with each of these programs.

3. Settlement

The Parties agree to remove $315,000 in marketing program expenses from the test year.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

132. Order Marketing expenses be reduced by $315,000. (ALJ, the Parties)
133. Take some other action.

Reference to Record
Ex. CPE-6 at 9-14 and Scheds. 2-4 (Berreman Direct)
Ex. OAG-2 at 61-68 and Sched. 5 (Twite Direct)
Settlement at 10

P. CWC Salaries/Wages

1. Introduction

The issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy testified that it used a lead-lag study to determine other Cash Working Capital (CWC) in the test year rate base. Lead-lag study elements from the Company's prior lead-lag study were reviewed and select elements were recalculated based on the magnitude of the elements' impact, changes in legal requirements or Company policy, and the time since the last update.

In Direct Testimony, the Department identified that the Company inadvertently used a different salary and wage figure in the lead-lag model which overstated rate base.

3. Settlement

The Parties agreed to incorporate the Department's recommended reduction to rate base of $543,000 related to salaries and wages used in the lead-lag study.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

134. Order a $543,000 reduction in rate base related to salaries and wages used in the lead-lag study. (ALJ, all Parties)
135. Take some other action.

Reference to Record
Ex. CPE-12 at 14-15 (Poppie Direct)
Ex. CPE-12, Sched. 3 (Poppie Direct)
Ex. CPE-24, Workpaper 2 (Poppie WP)
Ex. DOC-1 at 14-23 (Morrissey Direct)
Settlement at 10

Q. Health and Welfare

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy's test year health and welfare expenses were based on 2020 actuals expenses, escalated by cost trend rates developed by its health benefits consulting firm.

The Department recommended reducing test year expenses to 2020 actuals, reducing regulated rate base by $201,798 and regulated test year general and administrative expenses by $506,117.

3. Settlement

The Parties agreed to reduce regulated rate base by approximately $202,000 and reduce regulated test year general and administrative expenses by approximately $506,000 related to the Company's health and welfare expenses.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

136. Order a $202,000 reduction in rate base. (ALJ, all Parties)
137. Order a $506,000 reduction in general and administrative expenses. (ALJ, all Parties)
138. Take some other action.

Reference to Record
Ex. CPE-7 at 29-32 (Villatoro Direct)
Ex. CPE-5 at 45-48 (Gilcrease Direct)

Ex. DOC-2 at 14-16 and MAJ-D-4 at 1 (Johnson Direct)
Settlement at 11

R. Health and Welfare – Service Company

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy also included the allocated portion of health and welfare costs for its Service Company employees as a test year cost.

Based on the percentage adjustment it recommended in direct health and welfare costs, the Department recommended a$101,128 adjustment to general and administrative expenses.

3. Settlement

The Parties agreed to reduce test year general and administrative expenses by $101,000 related to the Service Company's regulated portion of health and welfare costs.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

139. Order a $101,000 reduction in general and administrative expenses related to the Service Company's regulated portion of health and welfare costs. (ALJ, all Parties)
140. Take some other action.

Reference to Record
Ex. CPE-7 at 29-32 (Villatoro Direct)
Ex. CPE-5 at 45-48 (Gilcrease Direct)
Ex. DOC-2 at 16-18 (Johnson Direct)
Settlement at 11

S. Post-Employment Benefits

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy's filing included approximately $209,000 in post-employment benefit expenses attributable to regulated operations.

In discovery, CenterPoint Energy provided the Department an updated post-employment benefit expense figure and, based on that update, the Department recommended reducing test year general and administrative expenses by $71,000 on a regulated basis.

3. Settlement

The Parties agreed to reduce test year general and administrative expenses by approximately $71,000 for post-employment benefit expenses.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

141. Order a $71,000 reduction in general and administrative expenses for post-employment expenses. (ALJ, all Parties)
142. Take some other action.

<u>Reference to Record</u>
Ex. CPE-7 at 38 (Villatoro Direct)
Ex. CPE-5 at 47 (Gilcrease Direct)
Ex. DOC-2 at 14-16 and MAJ-D-4 at 1 (Johnson Direct)
Settlement at 11-12

T. Investor Services and Investor Relations

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy included Investor Services and Investor Relations expenses of approximately $215,000 in the test year.

Since the Company did not provide a means to discern how much of these costs support ratepayers and consistent with prior Commission decisions, the Department recommended disallowance of one-half of those expenses, or approximately $107,451.

3. Settlement

The Parties agreed to reduce test year expenses by approximately $107,000, representing fifty percent of the Company's test year Investor Services and Investor Relations expenses.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

5. Decision Alternatives

143. Order a $107,000 reduction in Investor Services and Investor Relations expenses. (ALJ, all Parties)
144. Take some other action.

Reference to Record
Ex. CPE-3 at 26-28 (Jerasa Direct)
Ex. DOC-1 at 11-14 (Morrissey Direct)
Settlement at 12

U. Lobbying

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy stated that it intended to remove all lobbying expenses from the test year.

The Department confirmed that CenterPoint Energy removed all lobbying expenses directly incurred by the utility but could not confirm that the Company also removed its allocated share of corporate lobbying expenses and recommended a $20,798 adjustment.

3. Settlement

The Parties agreed to reduce test year expenses by approximately $21,000 related to corporate lobbying expenses.

4. Staff Comments

The Settlement's handling of this issue appears reasonable.

5. Decision Alternatives

145. Order a $21,000 reduction in corporate lobbying expenses. (ALJ, all Parties)
146. Take some other action.

Reference to Record
Ex. CPE-5 at 39 (Gilcrease Direct)
Ex. DOC-1 at 38-39 (Morrissey Direct)
Settlement at 12

V. Short-Term Incentive Pay

1. Introduction

This issue was originally disputed between CenterPoint Energy and the Department.

2. Party Positions

CenterPoint Energy's filing included approximately $4.1 million in Short-Term Incentive (STI) pay – approximately $3.3 million in operating expenses and approximately $800,000 in capitalized expenses. This amount reflected STI pay at 100 percent of target but limited to a cap of 25 percent of base pay.

The Department accepted the 100 percent target level of achievement but recommended capping STI payments at 15 percent of base pay for ratemaking purposes, reducing test year expenses by $263,964 and reducing test year rate base by $41,586. The Department also recommended requiring CenterPoint Energy to make annual compliance filings reporting its actual incentive pay costs and requiring refunds for an approved eligible STI recovery that is not paid out, determined by employer segment.

3. Settlement

The Parties agreed to reduce test year expenses by $264,000 and reduce test year rate base by approximately $40,000, related to STI payments. The Parties further agreed that the Company will make annual compliance filings reporting its actual incentive pay costs and will refund any approved eligible STI recovery that is not paid out, determined by employer segment.

4. Staff Comments

The Settlement's handling of this issue appears reasonable and is consistent with STI-related decisions made in recent CenterPoint Energy rate cases.

5. Decision Alternatives

147. Order a $264,000 reduction of STI O&M expenses and a $40,000 STI-related reduction to rate base. (ALJ, all Parties)
148. Require CenterPoint Energy to make annual compliance filings reporting its actual incentive pay costs and to refund any approved STI recovery that was not paid out. (ALJ, all Parties)
149. Take some other action.

<u>Reference to Record</u>
Ex. CPE-5 at 39 (Gilcrease Direct)
Ex. DOC-1 at 24-32 (Morrissey Direct)
Settlement at 13

W. Research and Field Verification

1. Introduction

This issue was originally disputed between CenterPoint Energy and the OAG.

2. Party Positions

CenterPoint Energy's filing included the capitalized expenses associated with its research and field verification project, approved by the Commission in the "Economic Recovery Docket".[15]

In Direct Testimony, the OAG recommended a $500,000 adjustment in test year expenses and to limit cost recovery to two-years so that ratepayers do not pay more than $1 million for the project.

3. Settlement

The Parties agree that no adjustment is required for the research and field verification project.

4. Staff Comments

Although in this instance ratepayers seem to lose the protection of the OAG's recommendations, as part of the "give-and-take" necessary to achieve a Settlement, staff concluded the handling of this issue appears to be reasonable.

5. Decision Alternatives

150. Approve CenterPoint Energy's Research and Field Verification as proposed in its rate case filing. (ALJ, all Parties)
151. Take some other action.

<u>Reference to Record</u>
Ex. CPE-4 at 65-66 (Wiinamaki Direct)
Ex. OAG-1 at 2-3 (Lee Direct)
Settlement at 13

[15] Docket No. G-008/M-20-880.

X. Integrity Management Investments

1. Introduction

This issue was originally disputed between CenterPoint Energy, OAG, CEO, and SRA.

2. Party Positions

CenterPoint Energy requested recovery of its integrity management expenses, including those associated with its Bare Steel, Legacy Steel and Legacy Plastic projects.

The OAG provided Direct Testimony that proposed alternative adjustments to the Bare Steel, Legacy Steel and Legacy Plastic replacement projects, with the size of the adjustment varying, depending on the timeline under which the Company completed this work.

The CEO provided Direct Testimony that did not recommend an any adjustment in this proceeding but requested that the Company commit to addressing issues related to its integrity management investments in Commission Docket No. G-999/CI-21-565 (21-565 Docket), where the Commission is evaluating potential changes to natural gas utility regulatory and policy structures to meet the State's greenhouse gas reduction goals.

SRA provided Direct Testimony regarding the increasing relative costs associated with these projects and prioritization of the projects and recommended prioritization of removal of Bare and Legacy Steel, and Tier 1 Plastic mains.

3. Settlement

The Parties agreed to allow recovery of CenterPoint Energy's integrity management investments in the test year. The Settling Parties further request that the Commission include consideration of integrity management investments in the 21-565 Docket.[16]

4. ALJ Report

The ALJ noted the following in her Findings:

> 54. Finally, through the Settlement, the Parties agreed to request that the Commission address certain policy issues, including natural gas line extension policies and integrity management investments, in a separate Commission investigation docket, so that those issues can be further developed and addressed in an industry-wide context. The Administrative Law Judge agrees that these issues are better addressed outside of the confines and structure of this rate case proceeding.

[16] See, Attachment 2 to the Settlement for a discussion of the issues.

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable. Staff notes that two issues arose in the Company's rate case that the Parties view as appropriate for a broader policy discussion, as opposed to litigation within the confines of a rate case: main and service line extension policies, and integrity management investments. As the Commission continues its investigation in the 21-565 Docket, the Parties believe that a discussion of these issues in this broader setting—with the Commission as well as other gas utilities and stakeholders—will result in a more unified approach that avoids the duplication of efforts.

The first issue the Parties address are gas utilities' line extension policies. The Parties noted that the Commission last directly addressed this issue in the mid-1990s, although extension tariffs have been updated from time to time. Since that time state policy has evolved and now incorporates greenhouse gas reduction goals, electrification and fuel switching, and a throughput reduction goal for geologic gas. The Parties argued that gas utility line extension policy should be re-examined in light of these new state policy goals and the 21-565 Docket is an ideal venue for this discussion.

Second, the Parties recommend that the Commission examine the level of integrity management investments that have driven the ongoing cycle of rate cases and gas utility infrastructure cost (GUIC) rider[17] filings for gas utilities over the past decade. The Parties agreed that all regulated utilities have an obligation to provide safe, reliable energy service to customers. However, the Parties also acknowledge that this level of investment has put pressure on rates and on the resources of many stakeholders – in either rate case or GUIC filings.

Staff notes that both IUOE Local 49 and LIUNA filed comments expressing interest in participating in the discussion on the future of line extensions and investments in infrastructure programs in the 21-565 Docket.

6. Decision Alternatives

152. Approve CenterPoint Energy's recovery of integrity management investments in the test year. (ALJ, all Parties)
153. Refer the issues of natural gas line extension policies and integrity management investments to docket (G-999/CI-21-565), so that those issues can be further developed and addressed in an industry-wide context.
154. Take some other action.

<u>Reference to Record</u>
Ex. CPE-4 at 9-55 (Wiinamaki Direct)
Ex. OAG-2 at 53-60 (Twite Direct)
Ex. CEO-1 at 10-18 (Dammel Direct)

[17] Staff notes that CenterPoint Energy does not make GUIC filings.

Ex. SRA-1 at 6-9 (Bride Direct)
Settlement at 13-14, Attachment 2
ALJ Report ¶ 54
IUOE Local 49 comments
LIUNA comments

Y. Renewable Hydrogen Project

1. Introduction

This issue was originally disputed between CenterPoint Energy, the Department, OAG, CEO, and SRA.

2. Party Positions

CenterPoint Energy's filing included a request to include investments in its first renewable hydrogen pilot project in rate base, along with a portion of its operating and maintenance expenses associated with this project (CenterPoint Energy has proposed that other expenses will be closed to Purchased Gas Adjustment (PGA) accounts and will be reviewed in PGA dockets). Additionally, the Company discussed its second planned hydrogen pilot project, originally intended to begin construction in 2022.

The Department recommended the Company remove the hydrogen project costs from its test year rate base and include it and future projects in approvals as part of the Natural Gas Innovation Act (NGIA) in Docket No. G-999/CI-21-566.

The OAG argued the NGIA evaluation process was more appropriate for approval of the proposed hydrogen project costs and all future projects.

The CEOs recommended the Company's proposed hydrogen projects not be approved in this rate case. The CEOs argued that the NGIA requires the Commission to adopt an evaluation framework for eligible projects and that approving the projects in this rate case would be premature.

The SRA argued the Company's Renewable Hydrogen project is a type of project contemplated in the NGIA and approved under a Commission approved framework in Docket No. G-999/CI-21-566.

3. Settlement

The Parties agreed that no adjustment is necessary related to the Company's initial renewable hydrogen project. The Parties further agreed that this settlement does not represent an endorsement of this technology by any party and that any future hydrogen project will be assessed in future NGIA dockets. Finally, the Parties agreed that CenterPoint Energy will not include this initial hydrogen pilot in any NGIA proposals.

4. Staff Comments

The Settlement's handling of this issue appears to be reasonable. Staff notes that the Settlement Agreement resolves the dispute around the Company's request to include its investments in its first renewable hydrogen project in rate base and matters related to any additional future projects.

5. Decision Alternatives

155. Approve CenterPoint Energy's proposed rate case expenses for the Renewable Hydrogen Project. (ALJ, all Parties)
156. Take some other action.

Reference to Record
Ex. CPE-1 at 4-5, 11 (Singleton Direct)
Ex. CPE-4 at 55-58 (Wiinamaki Direct)
Ex. DOC-9 at 2-11 (Nissen Direct)
Ex. OAG-1 at 8-12 (Lee Direct)
Ex. CEO-1 at 18-24 (Dammel Direct)
Ex. SRA-1 at 10-12 (Bride Direct)
Settlement at 14-15

Z. Base Cost of Gas

1. Introduction

This issue was not disputed; however, in its Notice of and Order for Hearing, the Commission requested parties address whether the base cost of gas proposed in the Application and in the accompanying "Base Cost of Gas" docket, MPUC Docket No. G-008/MR-21-436 needed to be updated.[18]

2. Settlement

The Parties agreed that the base cost of gas should be updated to reflect the cost of gas, consistent with the Commission Order.[19] The Settlement included the updated cost of gas in an attachment. Concurrently with this Settlement, the attachment was also filed in Docket No. G-008/MR-21-436.

[18] CenterPoint Energy Updated Base Cost of Gas Filing, MPUC Docket No. G-008/MR-21-436 (Mar. 14, 2022).

[19] *In re the Appl. of CenterPoint Energy Res. Corp., d/b/a CenterPoint Energy Minn. Gas, to Establish a New Base Cost of Gas Filing for Interim Rates in CenterPoint Energy's General Rate Case Filing*, Docket No. G-008/GR-21-436, ORDER SETTING NEW BASE COST OF GAS at 3 (Dec. 30, 2021).

3. ALJ Report

The ALJ noted the following in her findings:

> 55. The Notice of and Order for Hearing set forth eight specific issues to be discussed in this proceeding, each of which is addressed in the Settlement.
>
> . . .
>
> 4. The Settlement updates the base cost of gas proposed in 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 Nos. G-008/GR-21-435 and G-008/MR-21-436.

4. Staff Comments

Based on information known at the time, CenterPoint Energy's initial filing included a total base cost of gas of $595,268,188 (demand cost of $145,239,074 plus commodity cost of gas of $450,029,114). Based on the subsequent $135,925,940 increase in total gas costs included in the Settlement, total base cost of gas cost increased to $731,194,128 (demand cost of $154,941,631 plus commodity cost of gas of $576,252,497).

Staff notes that, as part of a rate case, the base cost of gas is reset in a companion docket. Since ratepayers pay for CenterPoint Energy's actual cost of gas, the Company recovers variances between the base and actual costs through its monthly Purchased Gas Adjustment (PGA), which is reported in monthly filings to the Department. Since these variances are recovered through the PGA, ratepayers may be indifferent to the base cost established in the rate case. However, since the cost of gas is part of total revenues and total revenues impact some ancillary costs,[20] it is important that the base cost of gas be established on the most current and accurate data. Therefore, including the $135,925,940 increase in total gas costs appears to be reasonable.

5. Decision Alternatives

157. Approve the updated base cost of gas of $731,194,128. (ALJ, all Parties)
158. Take some other action.

<u>Reference to Record</u>
Ex. DOC-5 at 3-4 (Shah Direct)
CPE Base Cost of Gas Filing, MPUC Docket No. G-008/MR-21-436 (Nov. 1, 2021)
CPE Updated Base Cost of Gas Filing, MPUC Docket No. G-008/MR-21-436 (Mar. 14, 2022)
Settlement at 15, Attachment 3
ALJ Report ¶ 55

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[20] For instance, bad debt and late payment revenues are based on total revenues.

VII. Class Cost of Service Study

1. Introduction

Minnesota Rules, Part 7825.4300 (C) requires that "[a] cost-of-service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested, showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures and underlying rationale for cost and revenue allocations." The Rule notes that such study is appropriate whenever the utility proposes a change in rates which results in a material change in its rate structure.

2. CenterPoint Energy

CenterPoint Energy submitted a Class Cost of Service Study (CCOSS or cost study) using a minimum system method based on a two-inch distribution main to classify the cost of gas distribution mains and related expenses in compliance with Minnesota Rule 7825.4300 (C). The cost study was based on pro forma revenues and costs for the calendar 2022 test-year.

CenterPoint Energy noted the "fundamental and underlying philosophy applicable to all cost studies pertains to the concept of *cost causation* for purposes of allocating costs to customer groups." (emphasis added).[21] In performing the CCOSS CenterPoint Energy followed the three general steps in cost studies: (1) functionalization; (2) classification; and (3) allocation.[22]

Step one—Functionalization—involved categorizing costs according to one of the three functions performed by CPE – production/generation, transmission, or distribution.[23]

Step two—Classification—separates the "functionalized plant and expenses" into three cost-defining characteristics: (1) customer; (2) demand or capacity; and (3) Commodity. [24]

Step three—Allocation—takes the functionalized and classified costs and allocates them to individual customers or rate classes.[25]

CenterPoint Energy's CCOSS concluded by showing an overall revenue deficiency of $67,065,763 using present revenue and rate levels.[26] Table 1 provides CenterPoint Energy's overall CCOSS summary[27]:

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[21] Ex. CPE-14 at 8 (Zarumba Direct).

[22] *Id.* at 15.

[23] *Id.*

[24] *Id.* at 16

[25] *Id.*

[26] *Id.* at 49.

[27] Ex. CPE-36 at 3 (Zarumba Workpaper).

Table 1: CenterPoint Energy CCOSS

CenterPoint Energy - Minnesota Gas
Docket No. G-008/GR-21-435 - Test Year Ending December 2022, Using the Minimum System Method
Overall Class Cost of Service Summary

Line No.	Column (A) Particulars	(B) Total	(C) Residential Sales Service	(D) Firm Commercial/Industrial A - Sales Service	(E) Firm Commercial/Industrial B - Sales Service	(F) Firm Commercial/Industrial C - Sales Service	(G) Firm Commercial/Industrial C - Transport	(H) Sm Vol Dual Fuel - A - Sales Service	(I) Sm Vol Dual Fuel - A - Transport	(J) Sm Vol Dual Fuel - B - Sales Service	(K) Sm Vol Dual Fuel - B - Transport	(L) Large Firm - Sales Service	(M) Large Firm - Transport	(N) Lg Dual Fuel Sales Service	(O) Lg Dual Fuel Transport
1	Operating & Maintenance Expense	$ 182,675,524	$ 115,352,357	$ 5,571,396	$ 7,904,372	$ 31,899,595	$ 679,446	$ 1,911,284	$ 137,462	$ 1,091,797	$ 179,910	$ 724,848	$ 7,701,409	$ 3,454,934	$ 6,066,714
2	Depreciation	115,417,249	76,310,520	4,668,569	5,181,465	17,385,429	369,992	543,292	40,863	265,925	46,168	462,641	5,541,769	1,945,864	2,654,752
3	Taxes Other Than Income	50,249,668	32,620,587	1,716,540	2,226,956	8,173,004	175,889	273,718	20,449	143,631	24,726	193,108	2,733,039	730,863	1,217,160
4	Subtotal	348,342,441	224,283,464	11,956,505	15,312,793	57,458,028	1,225,327	2,728,294	198,773	1,501,354	250,803	1,380,597	15,976,218	6,131,660	9,938,626
5	Income Taxes (incl. taxes on deficiency)	29,695,552	19,209,323	1,010,020	1,323,182	4,865,240	104,895	151,966	11,417	79,537	13,791	114,628	1,682,183	420,127	709,243
6	Return on Rate Base	123,700,909	80,019,078	4,207,376	5,511,898	20,266,828	436,953	633,037	47,560	331,322	57,446	477,497	7,007,364	1,750,098	2,954,451
7	Total Gross Cost of Service	501,738,902	323,511,865	17,173,900	22,147,874	82,590,097	1,767,174	3,513,297	257,751	1,912,213	322,040	1,972,722	24,665,764	8,301,885	13,602,321
8	Less: Revenue Credits to the Cost of Service (under current tariff)	(5,270,695)	(3,286,620)	(174,578)	(224,917)	(844,435)	(60,927)	(102,875)	(13,342)	(32,959)	(6,062)	(23,049)	(252,954)	(97,547)	(150,430)
9	Total Net Cost of Service	496,468,207	320,225,244	16,999,322	21,922,956	81,745,661	1,706,248	3,410,422	244,409	1,879,254	315,978	1,949,673	24,412,810	8,204,338	13,451,891
10	Net Revenues under Current Base Rates (Incl CCRC & GAP)	429,402,444	276,459,878	11,068,128	17,608,221	75,718,036	2,154,705	6,194,281	542,645	3,582,620	651,983	1,546,068	15,123,975	6,986,293	11,765,612
11	Jurisdictional Cost-of-Service Excess (Deficiency)-Current Tariff	$ (67,065,763)	$ (43,765,366)	$ (5,931,194)	$ (4,314,736)	$ (6,027,625)	$ 448,457	$ 2,783,859	$ 298,236	$ 1,703,366	$ 336,004	$ (403,605)	$ (9,288,835)	$ (1,218,045)	$ (1,686,279)

As seen in Table 1 and derived from CenterPoint Energy's CCOSS, the residential class accounts for nearly 64.5 percent of the Company's net costs; and 65.3 percent of the revenue deficiency noted above. Utilization of other cost methods would provide different estimates of revenue deficiency associated with customer classes.

Table2, from CenterPoint Energy's CCOSS, shows the classification of customer, capacity (demand) and commodity (energy) costs, and allocation of the same between customer classes. [28]

Table 2: CenterPoint Energy Allocation of CCOSS

CenterPoint Energy - Minnesota Gas
Docket No. G-008/GR-21-435 - Test Year Ending December 2022, Using the Minimum System Method
Cost of Service Model Results

Line No.	Column (A) Particulars	(B) Total	(C) Residential Sales Service	(D) Firm Commercial/Industrial A - Sales Service	(E) Firm Commercial/Industrial B - Sales Service	(F) Firm Commercial/Industrial C - Sales Service	(G) Firm Commercial/Industrial C - Transport	(H) Sm Vol Dual Fuel - A - Sales Service	(I) Sm Vol Dual Fuel - A - Transport	(J) Sm Vol Dual Fuel - B - Sales Service	(K) Sm Vol Dual Fuel - B - Transport	(L) Large Firm - Sales Service	(M) Large Firm - Transport	(N) Lg Dual Fuel Sales Service	(O) Lg Dual Fuel Transport
1	Jurisdictional Cost-of-Service Excess (Deficiency)-Current Tariff	$ (67,065,763)	$ (43,765,366)	$ (5,931,194)	$ (4,314,736)	$ (6,027,625)	$ 448,457	$ 2,783,859	$ 298,236	$ 1,703,366	$ 336,004	$ (403,605)	$ (9,288,835)	$ (1,218,045)	$ (1,686,279)
2															
3	Net Cost of Service:														
4	Customer	247,920,022	189,499,364	12,079,854	9,834,494	24,056,575	485,383	982,071	72,111	262,473	45,515	651,941	3,142,172	3,816,764	2,991,306
5	Capacity	209,893,103	111,935,352	4,336,597	10,496,596	48,371,799	1,014,276	1,399,640	94,992	933,840	151,911	1,019,433	20,266,004	2,631,579	7,241,085
6	Commodity	38,655,083	18,790,529	582,871	1,591,866	9,317,288	206,589	1,028,711	77,305	682,941	118,552	278,300	1,004,634	1,755,996	3,219,500
7	Total	496,468,207	320,225,244	16,999,322	21,922,956	81,745,661	1,706,248	3,410,422	244,409	1,879,254	315,978	1,949,673	24,412,810	8,204,338	13,451,891
8															
9	Recovery of Cost of Service:														
10															
11	Customer Costs (line 4)	247,920,022	189,499,364	12,079,854	9,834,494	24,056,575	485,383	982,071	72,111	262,473	45,515	651,941	3,142,172	3,816,764	2,991,306
12	Customer Numbers	905,925	833,823	28,475	20,527	21,295	423	851	64	144	25	22	46	137	93
13	Monthly Basic Charge [line 11/ (line 12 x 12 months)]	$ 22.81	$ 18.94	$ 35.35	$ 39.93	$ 94.14	$ 95.62	$ 96.17	$ 93.89	$ 151.89	$ 151.72	$ 2,469.47	$ 5,692.34	$ 2,321.63	$ 2,680.38
14															
15	Recovery of Capacity/Commodity thru Volumetric charge:														
16	Capacity Costs (line 5)	209,893,103	111,935,352	4,336,597	10,496,596	48,371,799	1,014,276	1,399,640	94,992	933,840	151,911	1,019,433	20,266,004	2,631,579	7,241,085
17	Commodity Cost (line 6)	38,655,083	18,790,529	582,871	1,591,866	9,317,288	206,589	1,028,711	77,305	682,941	118,552	278,300	1,004,634	1,755,996	3,219,500
18	Subtotal	248,548,185	130,725,881	4,919,468	12,088,462	57,689,087	1,220,865	2,428,351	172,298	1,616,781	270,464	1,297,732	21,270,638	4,387,575	10,460,585
19															
20	Annual Sales Volume (DT)	188,709,481	74,187,839	2,301,566	6,284,047	36,772,253	815,746	4,055,188	304,973	2,690,006	467,015	1,098,284	31,499,252	6,919,801	21,313,511
21															
22	Usage Charge (line 18 / line 20)	$1.31709	$1.76209	$2.13744	$1.92367	$1.56882	$1.49662	$0.59883	$0.56496	$0.60103	$0.57913	$1.18160	$0.67527	$0.63406	$0.49080

3. Department

The Department noted that the Company performed an embedded CCOSS utilizing the minimum system method and that there was no specific Commission ordering points from the previous rate case that CenterPoint Energy was required to address in this rate case. Additionally, the Department highlighted that the Company did not make any changes to its CCOSS as used in the last rate case, and that it appropriately used the Handy Whitman cost escalator to normalize historical costs over time and to account for changes in price over time.

The Department requested CenterPoint Energy provide a CCOSS using the Zero-Intercept method. The Company provided the requested study but did not include it in their filing because it was "anomalous when compared to the Minimum System Approach." The

[28] Ex. CPE-36 at 4 (Zarumba Workpaper).

Department agreed with the Company that their minimum system study with a demand adjustment was the superior study.[29]

The Department ultimately recommended "that the Commission find that CenterPoint's CCOSS is reasonable."[30]

4. OAG

The OAG disagreed with CenterPoint Energy's use of the Minimum System method for the CCOSS. The OAG argued the Minimum System method is theoretically flawed and resulted in a "significant overestimation" of the cost of the smallest hypothetical system. Additionally, the OAG performed a survey of CCOSS's in the upper Midwest states to see which methods other states close to Minnesota used. The OAG concluded that CenterPoint Energy's classifying main costs solely as demand and customer related "appears to be rare among Upper Midwest gas utilities".[31]

The OAG argued that the more appropriate method is the Peak and Average methodology. The OAG requested CenterPoint Energy provide a CCOSS using this method, which the Company provided and the OAG used for its recommended revenue apportionment. The OAG recommended the Commission require CenterPoint Energy to file a Peak and Average CCOSS in its next rate case.

Additionally, the OAG had concerns with how CenterPoint Energy calculated its service line allocation factor. First, the OAG noted CenterPoint Energy used 2-years of historical averages for some customer classes and 6-years for others. Second, in its weighted service line calculation, the Company used the number of customer meters rather than the actual number of service lines. The OAG pointed out that this is an issue because there are instances where a single service line has multiple meters associated with it. For example, there is an apartment in Edina that has 185 meters being served by a single service line.

5. Settlement

The Parties agree that the Commission does not need to make any specific finding regarding the Company, Department, or OAG CCOSS recommendations, given the Parties' agreements on revenue apportionment and fixed monthly charges.[32]

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[29] Ex. DOC-7 at 29 (Zajicek Direct).

[30] *Id*. at 36.

[31] Ex. OAG-2 at 18 (Twite Direct).

[32] Settlement at 16.

6. ALJ Report

The ALJ noted the following in her Findings:

> 51. Fifth, the Settlement is informed by, but does not endorse, any single Class Cost of Service Study (CCOSS). In recent utility cases, the Commission has preferred to consider multiple CCOSSs rather than to base cost classification and allocation upon a single CCOSS.

7. Staff Comments

The Commission need not take any action regarding the CCOSS as the parties have agreed to a specific revenue apportionment and fixed monthly charges all of which are informed by CCOSS. However, Staff notes that the Settlement was silent with respect to the OAG's recommendation that CenterPoint, in its next rate case, file a CCOSS using the Peak and Average method. Therefore, Staff has offered the OAG's recommendation as a decision alternative.

8. Decision Alternatives

201. Accept the Settlement concerning CCOSS. (ALJ, all Parties)
202. Order CenterPoint Energy to file a CCOSS using the Peak and Average method in its next rate case. (OAG original position)
203. Take some other action.

Reference to Record
Ex. CPE-14 at 20, 43-61, 76-78 and Scheds. 2-3 (Zarumba Direct)
Ex. DOC-7, entire (Zajicek Direct)
Ex. OAG-2 at 2-20 (Twite Direct)
Settlement at 16
ALJ Report ¶ 51

VIII. Cost of Capital

1. CenterPoint Energy

As shown in Table 3, CenterPoint Energy initially proposed the following capital structure and cost rates for an overall cost of capital (rate of return or ROR) of 7.06 percent.

Table 3: CenterPoint Energy Proposed Cost of Capital [33]

Description	Percent of Total	Cost Rate	Weighted Cost of Capital
Long-Term Debt	45.00%	4.09%	1.84%
Short-Term Debt	4.00%	0.39%	0.02%
Common Equity	51.00%	10.20%	5.20%
Total Rate of Return (ROR)	100.00%		**7.06%**

[33] Ex. CPE-2 at 102-114 (Bulkley Direct).

2. Department

As shown in Table 4, the Department proposed the same capital structure as CenterPoint Energy but recommended the Common Equity cost rate be reduced to 9.25% for an overall ROR of 6.58%.

Table 4: Department Proposed Cost of Capital[34]

Description	Ratio of Total	Cost Rate	Weighted Cost of Capital
Long-Term Debt	45.00%	4.09%	1.84%
Short-Term Debt	4.00%	0.39%	0.02%
Common Equity	51.00%	9.25%	4.72%
Total Rate of Return (ROR)	100.00%		**6.58%**

3. Settlement

As shown in Table 5, the Parties' settlement agreement proposes to use CenterPoint Energy's capital structure while reducing the cost of equity to 9.39% resulting in an overall ROR of 6.65%.

Table 5: Settlement Proposed Cost of Capital[35]

Description	Ratio of Total	Cost Rate	Weighted Cost of Capital
Long-Term Debt	45.00%	4.09%	1.84%
Short-Term Debt	4.00%	0.39%	0.02%
Common Equity	51.00%	9.39%	4.79%
Total Rate of Return (ROR)	100.00%		**6.65%**

4. ALJ Report

Related to the Cost of Capital the ALJ made the following findings of fact:

> 50. Fourth, the Settlement's proposed return on equity (ROE) of 9.39 percent and resulting overall cost of capital of 6.65 percent is reasonable and supported by the record. In Direct Testimony, the Company proposed a capital structure and recommended values for the cost of long-term and short-term debt, and supported a return on equity (ROE) of 10.20 percent, resulting in a weighted cost of capital of 7.06 percent. The DOC agreed with the Company's proposed capital structure and recommended values for the cost of long-term and short-term debt and recommended an ROE of 9.25, resulting in an overall cost of capital of 6.58 percent. The Settlement's proposed ROE, and resulting cost of capital, falls within the range of the Parties' estimates.

[34] Ex. DOC-4 at 55-71 (Addonizio Direct).

[35] Settlement at 3.

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

6. Decision Alternatives

301. Approve the Settlement's proposed capital structure and overall cost of capital. (ALJ, all Parties)
302. Takes some other action.

Reference to Record
Ex. CPE-2, entire (Bulkley Direct)
Ex. CPE-3 at 3-26 (Jerasa Direct)
Ex. DOC-4, entire (Addonizio Direct)
Settlement at 3
ALJ Report ¶ 50

IX. Sales Forecast

1. Introduction

CenterPoint Energy's test-year sales and revenue estimate were based on using regression-based sales forecasts for its Residential and Small Volume Commercial and Industrial customer classes and utilizing the Company's customer count forecast. To forecast Large Volume commercial and industrial customers sales and revenue levels, the Company individually surveyed those customers.

2. CenterPoint Energy

CenterPoint Energy used the average of the recent 10-year (2011-2020) heating degree days as the normal weather variable for its multiple regression-based weather normalization of historical monthly use-per-customer, by customer class.

The econometric model-based sales forecasts for CenterPoint Energy's Residential, Commercial A/B/C, Industrial B/C, Dual Fuel A/B customer classes is a multi-step process that is weather normalized. The Company performed a weather normalized forecast using 10, 15, and 20 normalized weather years, ultimately arguing that the 10-year normal was the most appropriate. In addition to creating a 10-year weather normalized class by class use per customer (UPC) the Company forecasted a test year customer count for the model-based customer class forecasts. Lastly, the Company multiplied the 10-year weather normalized UPC by the forecasted Test Year 2022 customer count to provide an overall test year sales forecast for the 8 customer classes that use regression analysis for forecasting.

CenterPoint Energy noted that, while it used the same overall methodologies from previous forecasts, it utilized expanded economic and demographic variable lag evaluations and interventional variable form testing analytics to account for the impacts from COVID-19.[36]

As it has done in the past, CenterPoint Energy created a sales forecast for its Large Volume Commercial and Industrial customers via individual surveys of those customers. Using a 2020 base year the Company adjusted the sales volumes for each individually surveyed customer depending on their response to the Company's survey questions.[37] When a customer did not respond to the survey the Company utilized the 2020 base year usage as the 2022 Test year usage. The Company also adjusted the Large Volume Dual Fuel customers forecast to account for estimated test year curtailments.

3. Department

Although the Department provided a number of concerns with the Company's regression-based sales forecasts for customers it nonetheless concluded "that the values estimated for 2022 in CenterPoint's sales forecast is acceptable for rate making purposes."[38] While the Department concluded the forecasts were acceptable for ratemaking purposes, they did note the methodology poses risks for inaccuracy and therefore recommended that the Company, in its next rate case, be required to discuss the benefits and risks of their forecast methodology.

The Department did not fully analyze the Large Volume Commercial and Industrial sales forecast due to "timing issues."[39]

4. Settlement

The Parties agreed to use CenterPoint Energy's regression-based sales forecasts for the Residential and Small Volume Commercial and Industrial customer classes and the Company's Large Volume Commercial and Industrial classes sales forecasts for the purpose of setting base rates in this proceeding.

5. Staff Comments

Staff notes that while the Department had concerns, they ultimately concluded the Company's forecast methodology was acceptable for ratemaking purposes. To that end, the Settlement's handling of this issue appears to be reasonable. However, the Settlement is silent as to the Department's recommendations to provide a discussion of the benefits and risks of the Company's regression-based forecast methodologies and believes this discussion could be helpful in the Department's analysis in future rate cases. Specifically, the Department

[36] Ex. CPE-15 at 11-12 (Fitzpatrick Direct)

[37] Ex. CPE-13 at 7-8 (Dean Direct)

[38] Ex. DOC-6 at 21 (Hirasuna Direct).

[39] *Id*. at 21.

recommended that CenterPoint Energy discuss the benefits and risks of their forecast methodology for the Company's next rate case. At a minimum the discussion should include:

• Their choice of using a single regression equation, or more than one regression equation to estimate the UPCs for each class. The discussion should include evidence demonstrating that the company corrected for any statistically significant correlation in the error terms between the regression equations, if more than one regression equation is chosen.
• The choice of regression equation. If a third-party software is used, a description of the type of regression used in their test year forecast for each customer class regression.
• The construction of average temperatures, including any weighting with sales data. The discussion should include whether sales were included in any form on the right and left sides of a regression equation.
• Their choice of the number of years to include in any regression. If less than twenty years of monthly observations are chosen, then the discussion should include a depiction of the risks and benefits of selecting fewer in comparison to more observations.

6. Decision Alternatives

401. Approve the use of the Company's regression-based sales forecast as agreed to by parties in their Settlement Agreement. (ALJ, all Parties)
402. Require the Company to provide a discussion of the benefits and risks of their forecast methodology, providing at a minimum:
    1) Their choice of using a single regression equation, or more than one regression equation to estimate the UPCs for each class. The discussion should include evidence demonstrating that the company corrected for any statistically significant correlation in the error terms between the regression equations, if more than one regression equation is chosen.
    2) The choice of regression equation. If a third-party software is used, a description of the type of regression used in their test year forecast for each customer class regression.
    3) The construction of average temperatures, including any weighting with sales data. The discussion should include whether sales were included in any form on the right and left sides of a regression equation.
    4) Their choice of the number of years to include in any regression. If less than twenty years of monthly observations are chosen, then the discussion should include a depiction of the risks and benefits of selecting fewer in comparison to more observations. (Department original position)

403. Take some other action.

Reference to Record

Ex. CPE-15 at 9, 20 (Fitzpatrick Direct)
Ex. CPE-13 at 2-19 (Dean Direct)
Ex. DOC-6, entire (Hirasuna Direct)
Settlement at 15-16

X. Rate Design

Rate design addresses the following: (1) Class Revenue Apportionment; (2) Basic Monthly Service Charges; (3) Line Extension; (4) Misc. Tariff Updates; (5) Income Tax Rider; and (6) Minnesota-Based Personnel.

A. Revenue Apportionment

1. Introduction

Much of the parties' discussion in a rate case is focused on the revenue requirement determination. Once the Commission establishes the revenue requirement, revenue responsibilities are assigned (apportioned) to the customer classes. Once apportioned, the Commission determines the design of rates within each class. In setting rates, the Commission should be aware that rates must be just and reasonable[40] and that an important aspect of reasonable rates is their design. Apportionment and rate design are largely quasi-legislative functions, involving policy decisions.

2. Party Positions

CenterPoint Energy's initial filing stated that, for Class Revenue Apportionment, the Company did not propose to allocate based on a full-cost basis, e.g., following exactly the CCOSS.[41] The Company noted that allocating the revenue on a full-cost basis would have triggered "unacceptably large rate increase to certain non-residential classes" and that it used the CCOSS as an "important guide." The Company noted that deciding on a reasonable allocation of revenue among rate classes is determined by balancing certain factors, specifically: "(1) cost of service; (2) class contribution to present revenue levels; and (3) customer impact considerations, such as rate shock."[42]

Additionally, CenterPoint Energy recommended that, if the Commission were to authorize a different revenue increase from the Company's proposal of $67.1 million, that it should apportion the authorized revenue by the percentages the Company filed in its petition and shown in Table 6. Table 6 also shows the Company's proposed revenue apportionment change as well as each rate class's Relative Rate of Return (a value of 1.00 would mean that rate class is fully cost based, a value less than 1.00 would mean that rate class is charged less than its full cost, and a value greater than 1.00 means that rate class is charged more than full cost).

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[40] Minn. Stat. §§ 216B.03, 216B.07.

[41] *See* Ex. CPE-14 at 53 (Zarumba, Direct).

[42] *Id*.

Table 6: CenterPoint Energy's Proposed Class Revenue Apportionment

Rate Class	Operating Revenues at Current Rates	Proposed Revenue Change	Percent Change	Relative Rate of Return
Residential	$617,954,019	$40,470,073	6.5%	0.96
C&I – Rate A	$21,735,086	$3,873,902	17.8%	0.51
C&I – Rate B	$46,480,851	$4,754,437	10.2%	1.08
C&I – Rate C Sales	$244,199,818	$10,292,272	4.2%	1.21
C&I – Rate C Transport	$2,215,631	$222,393	10.0%	2.54
Small Dual Fuel – A Sales	$19,884,874	$1,761,838	8.9%	8.18
Small Dual Fuel – A Transport	$555,987	$132,500	23.8%	10.06
Small Dual Fuel – B Sales	$12,628,982	$1,014,593	8.0%	9.20
Small Dual Fuel – B Transport	$658,044	$176,145	26.8%	9.92
Large Firm – Sales	$6,065,792	$376,151	6.2%	0.94
Large Firm – Transport	$15,376,929	$796,196	5.2%	-0.21
Large Dual Fuel – Sales	$30,270,019	$1,371,615	4.5%	1.09
Large Dual Fuel – Transport	$11,916,042	$1,822,390	15.3%	1.05
Total Company	$1,029,942,074	$67,064,506	6.5%	1.00

The Department, citing the ongoing COVID-19 impacts that have especially impacted the residential class, recommended that the residential class apportionment be reduced from a 6.5% increase to a 6.0% increase. The Department then spread the reduced revenue from the residential class among the various rate classes except for the C&I A class which under the Company's (and the Department's) revenue apportionment would receive a 17.8% increase.

The Department's revenue apportionment recommendations can be seen in Table 7.

Table 7: Department of Commerce's Proposed Class Revenue Apportionment

Customer Class	Current Revenue	CP Proposed	CP % Increase	DOC Proposed	DOC Percent Increase
Residential	$617,954,919	$658,424,092	6.5%	$655,315,799	6.0%
C&I - A	$21,735,086	$25,608,988	17.8%	$25,608,988	17.8%
C & I – B	$46,480,851	$51,235,288	10.2%	$51,657,719	11.1%
C& I – C	$246,415,449	$256,930,114	4.3%	$258,599,759	4.9%
Lg. Vol. Firm	$21,442,721	$22,615,069	5.5%	$22,952,113	7.0%
SVVDF A	$20,440,861	$22,335,199	9.3%	$22,498,243	10.1%
SVDF B	$13,287,026	$14,477,764	9.0%	$14,580,248	9.7%
LVDF	$42,186,0619	$45,380,066	7.6%	$45,794,626	8.6%
Total	$1,029,942,042	$1,097,006,580	6.5%	$1,097,007,477	6.5%

The Department also recommended that, if the Commission authorized a different revenue requirement than CenterPoint's proposal of $67.1 million, then each class apportionment should be altered to reflect that overall change from the proposed $67.1 million.[43]

[43] Ex. DOC-8 at 21 (Peirce Direct).

The OAG, preferring the Peak & Average CCOSS, recommended a revenue apportionment that differed from both CenterPoint Energy and Department. The OAG's revenue apportionment recommendation was derived using a three-step process with the resulting apportionment shown in Table 8.[44] Additionally, the OAG recommended that, if the Commission's final approved revenue requirement is lower than the Company's request, the apportionment should be determined based on the ratio of the final approved amount to the requested amount.

Table 8: Office of Attorney General's Proposed Class Revenue Apportionment

Customer class	Current revenues	OAG proposed revenues	Increase	
			$	%
Residential	$617,781,801	$643,147,377	$25,365,575	4.1%
C&I A	$21,728,210	$22,975,409	$1,247,199	5.7%
C&I B	$46,493,164	$49,533,817	$3,040,653	6.5%
C&I C - Sales	$244,293,398	$264,178,881	$19,885,483	8.1%
C&I C - Transport	$2,217,722	$2,512,679	$294,957	13.3%
Small Dual Fuel - A - Sales	$19,887,341	$22,134,611	$2,247,270	11.3%
Small Dual Fuel - A - Transport	$556,172	$610,343	$54,171	9.7%
Small Dual Fuel - B - Sales	$12,630,817	$14,108,623	$1,477,806	11.7%
Small Dual Fuel - B - Transport	$658,363	$723,804	$65,441	9.9%
Large Firm - Sales	$6,067,880	$7,020,537	$952,657	15.7%
Large Firm - Transport	$15,421,383	$19,261,307	$3,839,924	24.9%
Lg Dual Fuel Sales	$30,274,827	$36,299,518	$6,024,691	19.9%
Lg Dual Fuel Transport	$11,930,995	$14,500,931	$2,569,936	21.5%
Company Total	$1,029,942,074	$1,097,007,837	$67,065,763	6.5%

3. Settlement

The Parties agreed that the revenue increase should be applied in accordance with the Department's revenue apportionment recommendation.

The settlement revenue apportionment is shown in Table 9.

[44] Ex. OAG-2 at 25 (Twite Direct).

Table 9: Settlement Agreement's Proposed Class Revenue Apportionment

Line No.	Class	Total Test Year Revenue @ Present Rates	Total Test Year Revenue Responsibility	Proposed Increase (Decrease)	Percentage Change
	(a)	(b)	(c)	(d)	(e)
1	Residential	$690,375,887	$717,387,679	$27,011,792	3.9%
2	Comm Firm A	$23,909,249	$26,710,715	$2,801,466	11.7%
3	Comm/Ind Firm B	$52,668,787	$56,412,121	$3,743,334	7.1%
4	Comm/Ind Firm C - Sales Service	$280,881,367	$289,507,856	$8,626,489	3.1%
5	Comm/Ind Firm C - Transport	$2,154,705	$2,340,144	$185,440	8.6%
6	Large General Firm Sales Service	$7,121,715	$7,466,625	$344,910	4.8%
7	Large Firm Transport	$15,131,146	$15,836,061	$704,915	4.7%
8	Small Dual Fuel A - Sales Service	$23,593,054	$24,976,542	$1,383,489	5.9%
9	Small Dual Fuel A - Transport	$542,645	$646,691	$104,046	19.2%
10	Small Dual Fuel B - Sales Service	$15,124,083	$15,920,786	$796,703	5.3%
11	Small Dual Fuel B - Transport	$651,983	$790,299	$138,316	21.2%
12	Large Volume - Dual Fuel Sales Service	$36,675,683	$37,836,259	$1,160,576	3.2%
13	Large Volume - Dual Fuel Transport	$11,765,612	$13,265,024	$1,499,412	12.7%
14					
15					
16	TOTAL	$1,160,595,916	$1,209,096,803	$48,500,887	4.2%

4. ALJ Report

The ALJ report finds the following as it relates to revenue apportionment:

> 48. Second, the Settlement proposes to recover the revenue deficiency by apportioning a lower share of the increase to the Residential Class than proposed by the Company, addressing concerns from public commenters about the size of the proposed residential increase.[45]

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

6. Decision Alternatives

501. Approve the Revenue Apportionment as found in the Settlement. (ALJ, all Parties)
502. Take some other action.

Reference to Record

Ex. CPE-14 at 20, 53-61, 77 and Sched. 4 (Zarumba Direct)
Ex. DOC-8 at 17-19 (Peirce Direct)
Ex. OAG-2 at 21-26 (Twite Direct)
Settlement at 16-17
ALJ Report ¶ 48

[45] ALJ Report, ¶ 48.

B. Fixed Customer Charges

1. Introduction

Fixed customer charges are paid by customers on a monthly basis. Controversy regarding customer charges was focused on the charges to the Residential and Commercial A customer classes. The OAG and the CEOs disagreed with CenterPoint's proposal on one or more points. Ultimately, the parties agreed to a Settlement with the ALJ recommended approval.

2. Party Positions

CenterPoint's initial petition called for increases to all customer class's fixed monthly customer charge. The Company noted that the last increase to this charge for the residential class was in 2014 after the 2013 rate case. Additionally, CenterPoint highlighted data from the American Gas Association and updated by Black & Veatch that showed the 2021 median residential monthly customer charge in the West North Central census region was $13.72.[46] Table 10 identifies the Company's current and proposed monthly customer charges by class and the corresponding dollar and percentage increase.

Table 10: CenterPoint Energy's Fixed Customer Charges

	Customer Charge (per month)			
Customer Class	**Current**	**Proposed**	**$ Increase**	**% Increase**
Residential				
Residential	$9.50	$11.00	$1.50	15.79%
Commercial (C) & Industrial (I)				
Commercial A	$15.00	$17.50	$2.50	16.67%
C&I B	$21.00	$26.00	$5.00	23.81%
C&I C	$55.00	$65.00	$10.00	18.18%
C&I C Transportation	$155.00	$165.00	$10.00	6.45%
Small Volume Dual Fuel (SVDF)				
SVDF A Sales	$60.00	$80.00	$20.00	33.33%
SVDF A Transportation	$160.00	$180.00	$20.00	12.50%
SVDF B Sales	$95.00	$125.00	$30.00	31.58%
SVDF B Transportation	$195.00	$225.00	$30.00	15.38%
Large Volume Dual Fuel (LVDF)				
LVDF Sales	$1,050.00	$1,250.00	$200.00	19.05%
LVDF Transportation	$1,150.00	$1,350.00	$200.00	17.39%
Large Firm Sales				
Large Firm Sales	$1,050.00	$1,250.00	$200.00	19.05%
Large Firm Transportation				
Large Firm Transportation	$1,150.00	$1,350.00	$200.00	17.39%

[46] Ex. CPE-14 at 65 (Zarumba Direct).

The Department recommended the Commission approve the Company's proposed customer charges. The Department focused its analysis on the residential customer class and noted that both the current charge and proposed charges are below the actual cost for the residential class of $18.94. The Department calculated that, for a residential customer to actually pay their portion of the fixed costs, would require a residential customer to use 74 therms/month.[47] Noting that, if a customer used fewer than 74 therms/month, that customer would be subsidized by customers using more than 74 therms/month. The Department concluded that, while the proposed charge of $11.00/month would not eliminate the intra-class subsidization, it would move the costs closer to actual costs and reduce the intra-class subsidies.

The OAG calculated its own customer charges for the Residential and Commercial A classes and determined a maximum and minimum range associated with those costs for the Company. Additionally, the OAG cited to policy considerations for the monthly customer charge specifically citing to Minn. Stat. § 216B.03 and Minn. Stat. § 216C.05 subd. 1 that emphasize the importance of energy conservation. Additionally, the OAG argued that increasing the monthly customer charge for the residential customer class would disproportionally impact low-income customers and people of color.[48]

The OAG ultimately recommended that the Residential class customer charge be reduced by $1.50 to $8.00/month, and the Commercial A class only be increased by $1.00 to $16.00/month.

The CEOs recommended CenterPoint Energy's proposed increase to the Residential customer charge be rejected. The CEOs argued *inter alia* that increasing the customer charge conflicted with the state's policy of prioritizing energy conservation by decreasing the volumetric charge with a corresponding increase to the fixed charge thus reducing the incentive for a customer to lower their volumetric gas usage.[49]

3. Settlement

The Parties agreed to maintain the current customer charges for the Residential and the Commercial and Industrial A class and to otherwise adopt CenterPoint Energy's proposal, resulting in the following:

[47] Ex. DOC-8 at 40-41 (Peirce Direct).

[48] Ex. OAG-2 at 44 (Twite Direct).

[49] Ex. CEO-2 at 5 (Nelson Direct).

Table 11: Current and Proposed Fixed Charges per the Settlement

Monthly Basic Charges - $ per Customer	Present Rates	Settlement Rates
Residential	$9.50	$9.50
Commercial A	$15.00	$15.00
Commercial/Industrial B	$21.00	$26.00
C&I – Rate C Sales	$55.00	$65.00
C&I – Rate C Transport	$155.00	$165.00
Small Dual Fuel – A Sales	$60.00	$80.00
Small Dual Fuel – A Transport	$160.00	$180.00
Small Dual Fuel – B Sales	$95.00	$125.00
Small Dual Fuel – B Transport	$195.00	$225.00
Large Firm – Sales	$1,050.00	$1,250.00
Large Firm – Transport	$1,150.00	$1,350.00
Large Dual Fuel – Sales	$1,050.00	$1,250.00
Large Dual Fuel – Transport	$1,150.00	$1,350.00

4. ALJ Report

The ALJ Report found the following as it relates to the basic monthly charge:

> 32. There were two commenters who urged the Commission to reduce the basic charge for residential and small commercial/industrial customers and substantially increase the per-unit fuel charge for high-volume customers like large commercial/industrial users. According to these commenters, the Company's proposed rate structure results in a lower per-unit monthly bill for high-volume consumers, which is contrary to the policy of encouraging energy conservation. Such a rate structure does not incentivize large greenhouse gas emitters to reduce their high gas usage….
>
> 49. Third, the rate design proposed in the Settlement differs by customer class. The Residential, Commercial, and Industrial A classes will see an increase in their Delivery Charge, but their monthly Basic Charge will stay the same, addressing concerns raised by OAG, CEOs, and public commenters, who objected to an increase in the Basic Charge. All other classes will have both their Basic Charges and their Delivery Charges increased.

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

6. Decision Alternatives

503. Approve the Settlement with respect to Fixed Customer Charges. (ALJ, all Parties)
504. Take some other action.

Reference to Record
Ex. CPE-14 at 29, 52, 59-60, 63-65, 71 and Scheds. 2-6 (Zarumba Direct)
Ex. DOC-8 at 36-37 (Pierce Direct)
Ex. OAG-2 at 26-44 (Twite Direct)
Ex. CEO-2 at 3-16 (Nelson Direct)
Settlement at 17-18
ALJ Report ¶¶ 32, 49

C. Line Extensions

1. Introduction

Line extensions describe the extension of the natural gas distribution system to serve a new customer. Line extensions encompass the extension of gas distribution mains, the service line that connects the main to the meter, and the meter itself.

Utility line extension policy has historically been to allow the vast majority of these costs to connect new customers to be paid for by all ratepayers. The underlying rationale for historical line extension policy is that the new customer will eventually contribute net positive revenue for the utility through future bills and/or that individual customers' share of total system costs should remain constant.

2. Party Positions

As required by the Commission's March 31, 1995, Order in Docket No. G-999/CI-90-563, CenterPoint Energy responded to questions related to its main and service line extensions in its petition. In order for the Company to recover the costs associated with adding main line extensions within the usual 5-year period they proposed to decrease the free main footage from the current 150 feet to 125 feet. The Company did not propose to adjust the free service line extension of 75 feet.[50]

The CEOs opposed the Company's petition to decrease the current free main footage to 125 feet and to keep the free service footage at 75 feet. Rather, the CEOs argued that the Company's free main and service footages should be reduced by 68% for residential customers, resulting in 40 feet for mains and 24 feet for service lines.[51] Given the current utility landscape around natural gas usage and the state policy of encouraging electrification, the CEOs argued the reduction is necessary to ensure recovery of the costs within 5 years.

3. Settlement

The Parties agree to reduce the free main footage allowance to 100 feet, while maintaining the free service allowance at 75 feet. Additionally, the Parties recommend that the Commission further explore main and service line extension policies in the 21-565 Docket.

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[50] Ex. CPE-12 at 25 (Poppie Direct).

[51] Ex. CEO-2 at 17-35 (Nelson Direct)

4. ALJ Report

The ALJ report found the following as it relates to main and service line extensions:

> 54. Finally, through the Settlement, the Parties agreed to request that the Commission address certain policy issues, including natural gas line extension policies and integrity management investments, in a separate Commission investigation docket, so that those issues can be further developed and addressed in an industry-wide context. The Administrative Law Judge agrees that these issues are better addressed outside of the confines and structure of this rate case proceeding.

5. Staff Comments

The Settlement's handling of this issues appears to be reasonable. Staff notes that while neither party participated in the rate case proceeding both LIUNA and IUOE Local 49 submitted comments to the ALJ report calling for additional consideration in a separate docket for the main and service line extensions.

6. Decision Alternatives

505. Approve the Line Extension changes as found in the Settlement. (ALJ, all Parties)
506. Refer the issues of natural gas line extension policies to docket (G-999/CI-21-565), so that those issues can be further developed and addressed in an industry-wide context. (ALJ, all Parties)
507. Take some other action.

Reference to Record
Ex. CPE-12 at 16-27 (Poppie Direct)
Ex. CEO-1 at 3-9 (Dammel Direct)
Ex. CEO-2 at 17-35 (Nelson Direct)
Settlement at 18-19, Attachment 2
ALJ Report ¶ 54
IUOE Local 49 comments
LIUNA comments

D. Miscellaneous Tariff Updates

1. Introduction

In its initial filing, CenterPoint Energy proposed two new tariff offerings with related agreements, modifications to three tariffs and certain non-substantive tariff modifications and updates. The two new tariff offerings with proposed related agreements are: (i) Agricultural Grain Dryer service and (ii) Backup Generator Firm Sales Service. Modifications were proposed to: (i) Winter Construction Tariff (section VI, page 41); (ii) Firm/Interruptible Economic Feasibility (Section VI, page 5); and (iii) Supplied Meter Communication Rider (Section V, page 29). Additionally, the Company proposed to include the simplified Daily Imbalance charge language that was approved in the prior rate case (Docket No. G-008/GR-19-524) which had inadvertently been omitted from the compliance filing in that rate case and also proposed two non-substantive administrative changes. [52]

2. Party Positions

CenterPoint Energy stated that the proposed new Agricultural Grain Dryer tariff is meant to address issues for some of the Company's customers who primarily take service for a few months of the year and then disconnect from the system.[53]

In addition, the proposed new Backup Generator Tariff is meant to address the increasing number of customers installing Backup Electric Generators fueled by natural gas for various reasons including responding to peak electricity usage, e.g., arbitrage against high demand charges.[54]

The Department recommended approval of proposed changes to the Winter Construction Tariff and Firm/Interruptible Economic Feasibility Tariff. The Department also recommended approval of proposed changes to the Supplied Meter Communication Rider, the proposed Interruptible Agricultural Grain Dryer Tariff and the Firm Gas Backup Generator Tariff. [55]

No other Party provided testimony on these proposed offerings and tariff changes.

3. Settlement

The Parties agreed to the new tariff offerings and associated tariff changes set forth in the Company's Application discussed in this section.[56]

4. Staff Comments

The Settlement's handling of the issue appears to be reasonable.

5. Decision Alternatives

508. Approve the tariff changes and new offerings as agreed in the Settlement. (ALJ, all Parties)
509. Take some other action.

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[52] Ex. CPE-13 at 19-20 (Dean Direct).

[53] *Id.* at 27-31.

[54] *Id.* at 31-36.

[55] Ex. DOC-8 at 43-48 (Peirce Direct).

[56] This includes the Agricultural Grain Dryer Service, and Backup Generator Firm Sales Service.

Reference to Record
Ex. CPE-13 at 19-36 (Dean Direct)
Ex. CPE-17 at Proposed Tariffs tab
Ex. DOC-8 at 43-48 (Peirce Direct)
Settlement at 19

E. Income Tax Rider

1. Introduction

In its Notice of and Order for Hearing, the Commission requested parties to address whether the Company's proposed Income Tax Rider should be approved. The Department opposed the request, stating that no changes in state or federal income taxes appear likely in the near term.

2. Party Positions

CenterPoint Energy proposed a new "Income Tax Rider" to "provide an automatic symmetric adjustment to the Company's rates if the level of income taxes increase or decreases."[57] The proposal would create a new rider that would be responsive to any incremental change to either State or Federal income taxes without the need to file a new rate case or be at risk of over/under earning on currently applicable rates.

The Department recommended the Commission deny the Company's request. The Department argued *inter alia* it was premature to approve such a mechanism given there are no changes in State or Federal income tax rates being discussed.[58]

3. Settlement

The Parties agreed that CenterPoint Energy shall withdraw its request for approval of an Income Tax Rider. Should state or federal income tax rates change before the Company's next rate case, the Parties commit to work cooperatively to reflect such changes in rates.

[57] Ex. CPE-14 at 74 (Zarumba Direct).

[58] Ex. DOC-8 at 49 (Peirce Direct).

4. ALJ Report

The ALJ noted the following in her Findings:

> 55. The Notice of and Order for Hearing set forth eight specific issues to be discussed in this proceeding, each of which is addressed in the Settlement.
>
> …
>
> 7. The Company withdrew its request for an income tax rider as part of the Settlement.

5. Staff Comments

The Settlement's handling of this issue appears to be reasonable.

6. Decision Alternatives

510. Approve the withdrawal of the Income Tax Rider as agreed to in the Settlement. (ALJ, all Parties)
511. Take some other actions.

Reference to Record
Ex. CPE-14 at 4, 74-76 and Sched. 7 (Zarumba Direct)
Ex. DOC-8 at 48-49 (Peirce Direct)
Settlement at 20
ALJ Report ¶ 55

F. Minnesota-Based Personnel

1. Introduction

In its Notice of and Order for Hearing, the Commission also requested that the Company provide calculations for Minnesota-based personnel or full-time equivalents. As part of Settlement, the Company provided the following breakdown of Minnesota employees in 2021:

Table 12: CenterPoint Energy Minnesota-Based Personnel

	2021
Full-Time	
Co 72	1,056
Allocate	145
Total	1,201
Part-Time	
Co72	1
Allocate	1
Total	2
Grand Total	1,203

Amounts above include Company 72 employees and employees physically located in Minnesota allocating time to Minnesota regulated operations.

2. Settlement

The Parties did not make any recommendations on this topic in the Settlement.

3. ALJ Report

The ALJ noted the following in her findings:

> 55. The Notice of and Order for Hearing set forth eight specific issues to be discussed in this proceeding, each of which is addressed in the Settlement.
>
> . . .
>
> > 8. The Settlement provided calculations for Minnesota-based personnel or full-time equivalents.

4. Staff Comments

CenterPoint Energy provided a table showing the Minnesota-based personnel or full-time equivalents in compliance with the Commission's Notice of and Order for Hearing.

5. Decision Alternatives

512. Determine that CenterPoint Energy has fulfilled its compliance obligation regarding the reporting of Minnesota-based personnel or full-time equivalents.
513. Take some other action.

Reference to Record
Settlement at 20
ALJ Report ¶ 55

XI. General Housekeeping and Compliance Issues

As part of its Order at the end of rate cases, the Commission instructs the Company to make a standard compliance filing that includes financial and rate design schedules that reflect the Commission's decision. If the Commission adopts the Settlement in its totality then the financial and rate design schedules included in the Settlement would reflect the Commission's decision; however, should the Commission make changes to the Settlement, then revised schedules showing CenterPoint Energy's rate base summary, operating income statement summary, gross revenue deficiency calculation and a statement of total allowed revenues may be necessary.

Additionally, as part of the standard compliance filing, a final Order would instruct CenterPoint Energy to file revised tariff sheets, a draft customer notice, a new base cost of gas, and an interim rate refund plan. Staff would recommend that the Commission instruct CenterPoint Energy to make the same filings in this instance.

<u>Decision alternatives for General Housekeeping and Compliance Issues</u>

<u>Financial Schedules</u>

901. If the Commission adopts changes to the Settlement, state that the final order in this docket shall contain summary financial schedules including: a calculation of CenterPoint Energy's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order.
902. If modifications to financial schedules filed with the Settlement are necessary to reflect the Commission's final decision, require CenterPoint Energy to make a compliance filing within 30 days of the date of the final order in this docket that provides, if applicable, revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
    i. Breakdown of Total Operating Revenues by type;
    ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
        1. Total revenue by customer class;
        2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
        3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.
903. Take some other action.

<u>Other Compliance Items</u>

904. Require CenterPoint Energy to make the following compliance filings within 30 days of the date of the final order in this docket:

a. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
c. A computation of the CCRC based upon the decisions made herein for inclusion in the final Order.
d. A schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

905. Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on CenterPoint Energy’s proposed customer notice.

XII. Decision Alternatives

The Settlement (pg. 6)

1. Accept the Offer of Settlement and adopt the ALJ Findings of Fact, Conclusions of Law and Recommendation to Approve Settlement. (ALJ, all Parties)
2. Modify the Offer of Settlement as discussed herein.
3. Reject the Offer of Settlement.

Financial Issues

Charitable Contributions (pg. 7)

101. Order that $166,000 in charitable contributions be removed from the test year. (ALJ, all Parties)
102. Take some other action.

Dues (pg. 7)

103. Order that dues expense be reduced by $464,000. (ALJ, all Parties)
104. Take some other action.

Employee Awards, Gifts and Travel and Entertainment Expenses (pg. 8)

105. Order that employee gifts and awards be reduced by $225,000. (ALJ, all Parties)
106. Take some other action.

Non-Qualified Benefits (pg. 9)

107. Order that non-qualified benefits be reduced by $25,000. (ALJ, all Parties)
108. Take some other action.

Liquefied Natural Gas Sales Revenue (pg. 10)

109. Order that LNG sales revenue be increased by $300,000. (ALJ, all Parties)
110. Order that LNG sales expenses be increased by $173,000. (ALJ, all Parties)
111. Take some other action.

Property Tax Expense (pg. 11)

112. Order $77,000 in property tax expense be removed from the test year. (ALJ, all Parties)
113. Take some other action.

Property Tax Tracker Amortization (pg. 12)

114. Order the property tax expense to be reduced by $2.8 million. (ALJ, all Parties)
115. Take some other action.

Late Payment Revenue and Bad Debt Expense (pg. 13)

116. Order $1,184,000 in bad debt expense removed from the test year. (ALJ, all Parties)
117. Order $348,000 in late payment revenue removed from the test year. (ALJ, all Parties)
118. Take some other action.

Interest Synchronization (pg. 14)

119. Order interest synchronization and reduce income tax by $115,000. (ALJ, all Parties)
120. Take some other action.

Beginning Plant Balance and Rate Base (pg. 15)

121. Approve Parties' agreement to (1) to use the Company's actual plant balance at the beginning of the test year; (2) adjust depreciation expense and accumulated deferred income taxes accordingly; and (3) to use the trued-up EDIT balance and associated amortization true-up based on the actual tax return filed subsequent to the initial filing. (ALJ, all Parties)
122. Take some other action.

Permanent Records Integrity Management Excellence (pg. 15)

123. Order $1.2 million of PRIME project expenses removed from the test year. (ALJ, all Parties)
124. Take some other action.

Property Insurance Expense (pg. 16)

125. Order $1.5 million in property insurance expense removed from the test year. (ALJ, all Parties)
126. Take some other action.

Rate Case Expense (pg. 17)

127. Allow CenterPoint Energy to recover its rate case expenses over a two-year amortization period. (ALJ, all Parties)
128. Order removal of $422,000 in rate case expense resulting in a test year expense reduction of $211,000. (ALJ, all Parties)
129. Take some other action.

CAM Allocation (pg. 18)

130. Order removal of $1.959 million of indirect costs related to regulated operations. (ALJ, the Parties)
131. Take some other action.

Marketing Programs (pg. 19)

132. Order Marketing expenses be reduced by $315,000. (ALJ, the Parties)
133. Take some other action.

CWC Salaries/Wages (pg. 20)

134. Order a $543,000 reduction in rate base related to salaries and wages used in the lead-lag study. (ALJ, all Parties)
135. Take some other action.

Health and Welfare (pg. 20)

136. Order a $202,000 reduction in rate base. (ALJ, all Parties)
137. Order a $506,000 reduction in general and administrative expenses. (ALJ, all Parties)
138. Take some other action.

Health and Welfare – Service Company (pg. 21)

139. Order a $101,000 reduction in general and administrative expenses related to the Service Company's regulated portion of health and welfare costs. (ALJ, all Parties)
140. Take some other action.

Post-Employment Benefits (pg. 22)

141. Order a $71,000 reduction in general and administrative expenses for post-employment expenses. (ALJ, all Parties)
142. Take some other action.

Investor Services and Investor Relations (pg. 23)

143. Order a $107,000 reduction in Investor Services and Investor Relations expenses. (ALJ, all Parties)
144. Take some other action.

Lobbying (pg. 23)

145. Order a $21,000 reduction in corporate lobbying expenses. (ALJ, all Parties)
146. Take some other action.

Short-Term Incentive Pay (pg. 24)

147. Order a $264,000 reduction of STI O&M expenses and a $40,000 STI-related reduction to rate base. (ALJ, all Parties)
148. Require CenterPoint Energy to make annual compliance filings reporting its actual incentive pay costs and to refund any approved STI recovery that was not paid out. (ALJ, all Parties)
149. Take some other action.

Research and Field Verification (pg. 25)

150. Approve CenterPoint Energy's Research and Field Verification as proposed in its rate case filing. (ALJ, all Parties)
151. Take some other action.

Integrity Management Investments (pg. 27)

152. Approve CenterPoint Energy's recovery of integrity management investments in the test year. (ALJ, all Parties)
153. Refer the issues of natural gas line extension policies and integrity management investments to docket (G-999/CI-21-565), so that those issues can be further developed and addressed in an industry-wide context.
154. Take some other action.

Renewable Hydrogen Project (pg. 29)

155. Approve CenterPoint Energy's proposed rate case expenses for the Renewable Hydrogen Project. (ALJ, all Parties)
156. Take some other action.

Base Cost of Gas (pg. 30)

157. Approve the updated base cost of gas of $731,194,128. (ALJ, all Parties)
158. Take some other action.

Class Cost of Service Study (pg. 34)

201. Accept the Settlement concerning CCOSS. (ALJ, all Parties)
202. Order CenterPoint Energy to file a CCOSS using the Peak and Average method in its next rate case. (OAG original position)
203. Take some other action.

Cost of Capital (pg. 36)

301. Approve the Settlement's proposed capital structure and overall cost of capital. (ALJ, all Parties)
302. Takes some other action.

Sales Forecast (pg. 38)

401. Approve the use of the Company's regression-based sales forecast as agreed to by parties in their Settlement Agreement. (ALJ, all Parties)
402. Require the Company to provide a discussion of the benefits and risks of their forecast methodology, providing at a minimum:
    1) Their choice of using a single regression equation, or more than one regression equation to estimate the UPCs for each class. The discussion should include evidence demonstrating that the company corrected for any statistically significant correlation in the error terms between the regression equations, if more than one regression equation is chosen.
    2) The choice of regression equation. If a third-party software is used, a description of the type of regression used in their test year forecast for each customer class regression.
    3) The construction of average temperatures, including any weighting with sales data. The discussion should include whether sales were included in any form on the right and left sides of a regression equation.
    4) Their choice of the number of years to include in any regression. If less than twenty years of monthly observations are chosen, then the discussion should include a depiction of the risks and benefits of selecting fewer in comparison to more observations. (Department original position)
403. Take some other action.

Rate Design

Revenue Apportionment (pg. 42)

501. Approve the Revenue Apportionment as found in the Settlement. (ALJ, all Parties)
502. Take some other action.

Fixed Customer Charges (pg. 45)

503. Approve the Settlement with respect to Fixed Customer Charges. (ALJ, all Parties)
504. Take some other action.

Line Extensions (pg. 47)

505. Approve the Line Extension changes as found in the Settlement. (ALJ, all Parties)
506. Refer the issues of natural gas line extension policies to docket (G-999/CI-21-565), so that those issues can be further developed and addressed in an industry-wide context. (ALJ, all Parties)
507. Take some other action.

Miscellaneous Tariff Updates (pg. 48)

508. Approve the tariff changes and new offerings as agreed in the Settlement. (ALJ, all Parties)
509. Take some other action.

Income Tax Rider (pg. 50)

510. Approve the withdrawal of the Income Tax Rider as agreed to in the Settlement. (ALJ, all Parties)
511. Take some other actions.

Minnesota Based Personnel (pg. 51)

512. Determine that CenterPoint Energy has fulfilled its compliance obligation regarding the reporting of Minnesota-based personnel or full-time equivalents.
513. Take some other action.

General Housekeeping and Compliance Issues (pg. 52-53)

Financial Schedules

901. If the Commission adopts changes to the Settlement, state that the final order in this docket shall contain summary financial schedules including: a calculation of CenterPoint Energy's authorized cost of capital, a rate base summary, an operating income statement summary, a gross revenue deficiency calculation, and a statement of the total allowed revenues. Direct parties to work with Commission staff to prepare such schedules for inclusion in the Order.

902. If modifications to financial schedules filed with the Settlement are necessary to reflect the Commission's final decision, require CenterPoint Energy to make a compliance filing within 30 days of the date of the final order in this docket that provides, if applicable, revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:
    i. Breakdown of Total Operating Revenues by type;
    ii. Schedules showing all billing determinants for the retail sales (and sale for resale) of natural gas. These schedules shall include but not be limited to:
        1. Total revenue by customer class;
        2. Total number of customers, the customer charge and total customer charge revenue by customer class; and
        3. For each customer class, the total number of commodity and demand related billing units, the per unit of commodity and demand cost of gas, the non-gas margin, and the total commodity and demand related sales revenues.

903. Take some other action.

Other Compliance Items

904. Require CenterPoint Energy to make the following compliance filings within 30 days of the date of the final order in this docket:
    a. A revised base cost of gas, supporting schedules, and revised fuel adjustment tariffs to be in effect on the date final rates are implemented.
    b. A summary listing of all other rate riders and charges in effect, and continuing, after the date final rates are implemented.
    c. A computation of the CCRC based upon the decisions made herein for inclusion in the final Order.
    d. A schedule detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective.
    e. If final authorized rates are lower than interim rates, a proposal to make refunds of interim rates, including interest to affected customers.

905. Authorize comments on all compliance filings within 30 days of the date they are filed. However, comments are not necessary on CenterPoint Energy's proposed customer notice.