December 1, 2023

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/M-23-360

Dear Mr. Seuffert:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

> Petition of CenterPoint Energy for Approval of an Extension of Rule Variances to Minnesota Rules to Recover the Costs of Certain Natural Gas Financial Instruments Through the Purchased Gas Adjustment Clause.

Donald Wynia, Regulatory Analyst for CenterPoint Energy filed the Petition on August 1, 2023.

The Department recommends the Commission **approve with modifications CenterPoint Energy's Petition** and is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/Louise Miltich
Assistant Commissioner of Regulatory Analysis

/s/ Angie Skayer
Financial Analyst

/s/ John Kundert
Financial Analyst

AS/JK/ar
Attachment

COMMERCE DEPARTMENT

Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce
Division of Energy Resources

Docket No. G008/M-23-360

I. INTRODUCTION

On August 1, 2023, pursuant to Minnesota Statute § 216B.16, subdivision 7, and Minnesota Rule 7829.3200, CenterPoint Energy (CenterPoint or the Company) submitted a filing (Petition) requesting that the Minnesota Public Utilities Commission (Commission) extend the previously approved variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700 (the Purchased Gas Adjustment [PGA] rules). The Commission last granted this variance in its January 13, 2020, Order in Docket No. G008/M-19-699. This Order allowed CenterPoint to recover through its PGA the costs of certain financial hedging instruments, which are intended to minimize price volatility of the natural gas supplies purchased on behalf of Minnesota customers. The currently approved variance ends on June 30, 2024; CenterPoint's new four-year variance extension proposal would expire on June 30, 2028.

II. ANALYSIS

CenterPoint seeks continued approval to recover through its monthly PGA the costs associated with the financial hedging instruments that the Company uses in conjunction with its procurement of natural gas supplies for its Minnesota customers. Specifically, the Company requests approval to recover the costs of forward futures contracts, call options, put options in combination with call options to form a collar, and financial swaps. The Company also requests that the Commission grant the proposed rule variance before the current authorization expires on June 30, 2024. If the Commission is unable to issue an order in this matter prior to June 30, 2024, CenterPoint requests that the Commission permit the Company to recover financial hedging instrument costs during the period after June 30, 2024, and before the issuance of the Commission's order in this docket.

CenterPoint proposes the following provisions as part of seeking a four-year extension to the Company's rule variance request:

1. Set an annual limit on hedging volume up to 30% of CenterPoint Energy's expected normal winter load requirements;
2. Set an overall limit on hedging volume of 70 billion cubic feet (Bcf);
3. Allow multi-year hedging contracts of up to 60 months duration; with annual limits on volume for years 2024-2025 and 2025-2026 of 20 Bcf; with annual limits on volume for years beyond 2025-2026 of 10 Bcf;
4. Set an annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
5. Allow the variance to apply to all financial positions that CenterPoint enters through June 30, 2028;

6. Require reporting as detailed in Section 6 of CenterPoint's Petition;
7. Allow the use of put options only in combination with a call option to form a collar; and
8. Deny recovery of interest costs thru the PGA.

Attachment A compares the currently approved hedging variance to the Company's proposed hedging variance.

A. APPROPRIATENESS OF HEDGING UNDER CURRENT MARKET CONDITIONS

In the past, there have been discussions before the Commission regarding the necessity of financial hedging during periods in which natural gas prices are low. However, beginning in the fall of 2021 and extending through 2022, prices in the natural gas market spiked and provided evidence of the volatility of this market.[1] Table 1 below provides the Henry Hub Natural Gas spot prices for the years 2020 through 2023.

Table 1: Henry Hub Spot Prices January 2020 through August 2023
(Dollars per Million BTU)[2]

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2020	2.02	1.91	1.79	1.74	1.75	1.63	1.77	2.3	1.92	2.39	2.61	2.59
2021	2.71	5.35	2.62	2.66	2.91	3.26	3.84	4.07	5.16	5.51	5.05	3.76
2022	4.38	4.69	4.9	6.6	8.14	7.7	7.28	8.81	7.88	5.66	5.45	5.53
2023	3.27	2.38	2.31	2.16	2.15	2.18	2.55	2.58	2.64	2.98		

1. CenterPoint's Natural Gas Price Outlook and Volatility

In its Petition, CenterPoint discussed the fact that, like other commodity markets, the natural gas market is, by its nature, highly volatile. Using historical data from the New York Mercantile Exchange (NYMEX), the Company demonstrated the natural gas market volatility by showing the significant natural gas price fluctuations over the past 9.5 years, ranging from approximately $1.495 to $9.353 per MMBtu between Jan 2014 and July 2023. CenterPoint explained events such as environmental disasters, major pipeline damages impacting gas supply, adverse regulations on gas production or other market influences may impact future price spikes.[3] CenterPoint also discussed the lack of predictability in price spikes and how hedging allows the Company to lessen the financial impact of price increases to ratepayers. Graph 1 below shows the New York Mercantile Exchange (NYMEX) natural gas settlement prices for January 2014 through July 2023.

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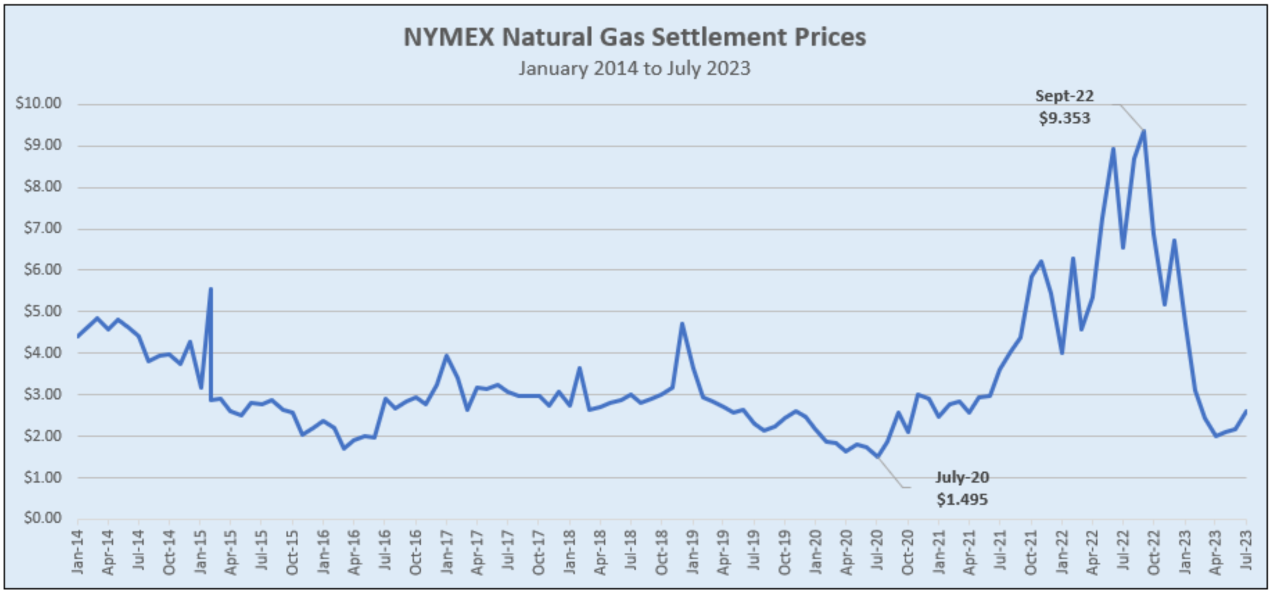
[1] The spill-over effects of the Russo-Ukraine War on the restrictions on the delivery of Russian natural gas to Western Europe limited and then eliminated Western Europe's primary source of natural gas supply starting in March 2022. This supply decrease led to Western Europe purchasing natural gas from non-Russian producers which increased demand in those markets and resulted in higher natural gas prices world-wide for the balance of 2022.
[2] https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm
[3] Petition, page 11.

Graph 1: NYMEX Natural Gas Settlement Prices January 2014 to July 2023 [4]



CenterPoint's Petition also included data from the United States Energy Information Administration's (EIA)'s June 2023 Short-Term Energy Outlook (STEO), which forecasts the natural gas spot prices at the Henry Hub through the end of 2024. The Henry Hub is a central connection with access to both intrastate and interstate pipelines as well as having access to storage facilities. NYMEX began offering the Henry Hub's Natural Gas Futures in April of 1990 as a risk management tool. The settlement prices at the Henry Hub are used as benchmarks for the North American gas market.[5]

The Company expects natural gas spot prices to rise in 3rd quarter of 2023 and then again in 2024 due to increased demand for natural gas in the electric power sector. At the same time, EIA forecasts the United States production of natural gas will remain flat due to a declining rate of production growth. As a result of this combination of stable supply and small increases in demand, 2024 natural gas spot prices are anticipated to be $3.40 per MMBtu, nearly 30% higher than 2023, but are still expected to be far below the 3rd quarter 2022 average of $8.00 due to inventory levels.[6,7] Table 2 provides the average Henry Hub spot prices per quarter.[8]

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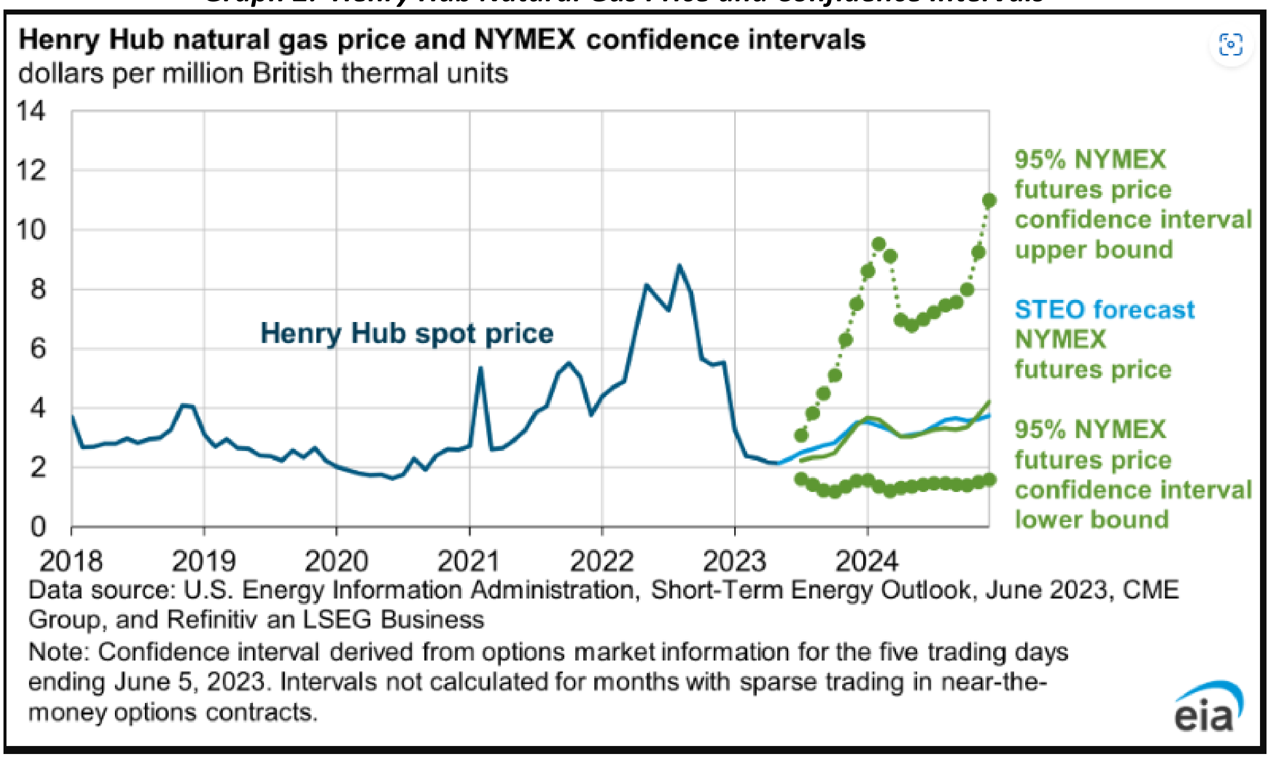
[4] Petition, Page 11.
[5] https://www.cmegroup.com/education/articles-and-reports/henry-hub-natural-gas-futures-global-benchmark.html
[6] Petition, Page 11.
[7] Western European demand for natural gas has decreased because of higher energy costs and those countries have successfully identified alternative natural gas supply sources, most notably Qatar and Algeria among others. These developments resulted in a decrease in short-term demand world-wide and lower natural gas prices in the United States.
[8] Data used for averages taken from: https://www.eia.gov/dnav/ng/hist/rngwhhdm.htm and Petition, page 11.

Table 2: Henry Hub Spot Price Averages by Quarter 2020 through 2023 ($ per MMBtu)

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2020	1.9	1.7	2.0	2.5
2021	3.6	2.9	4.4	4.8
2022	4.7	7.5	8.0	5.5
2023	2.7	2.2	*2.6*	
2024 Forecast				*3.4*

In addition to price estimates, the EIA's June 2023 STEO showed the NYMEX's 95% confidence intervals associated with the EIA's natural gas price predictions, as seen in Graph 2 below. The wide range of these confidence intervals underscores the volatility and illustrates the amount of risk that exists in natural gas markets.[9]

Graph 2: Henry Hub Natural Gas Price and Confidence Intervals[10]



[9] Petition, Page 12.
[10] Petition, Page 12.

2. *CenterPoint's Hedging Data for Recent Years*

CenterPoint's Petition included a ratepayer benefit analysis for the last three heating seasons (2020-2021, 2021-2022, and 2022-2023). The Company's analysis showed the actual costs incurred, including those for hedging instruments, were higher, by approximately 8 percent on average, than what costs would have been incurred had CenterPoint relied solely on the market. While in some circumstances hedging can mitigate sustained price increases to a certain extent, it is not expected that ratepayers will benefit from financial hedging every year. Hedging's primary goal is to mitigate natural gas price volatility. A hedging program is not expected to lower the price of natural gas if those prices increase slightly, remain stable or decline during the heating season. CenterPoint's hedging program pays other market participants to accept the price risk associated with a portion of its supply portfolio above a certain price thereby shifting that risk from ratepayers to those other market participants.

Table 3 below shows the Company's analysis for the last three heating seasons and financial effects of the Company's hedging program on ratepayers.

Table 3: CenterPoint's Analysis of Hedged Volumes[11]

Analysis of Hedged Purchases Winter Periods November 1, 2020 thru March 31, 2023						
Year	Hedged Vols	Actual Costs	Cost at Market	Cost (Under)/Over Market	Cost Per Dekatherm	% (Under)/Over Market
Winter 20-21	23,051,500	$79,920,898	$60,186,440	$19,734,458	$0.86	33%
Winter 21-22	26,000,070	$130,621,215	$159,888,207	($29,266,993)	($1.13)	-18%
Winter 22-23	26,000,070	$221,706,971	$180,363,345	$41,343,625	$1.59	23%
TOTALS (AVG)	**75,051,640**	**$432,249,083**	**$400,437,992**	**$31,811,091**	**$0.42**	**8%**

In Table 3 above, CenterPoint converted its additional costs related to hedging (Actual Costs less Cost at Market) into a cost per dekatherm (Dth) measure. In terms of annual sales, CenterPoint's hedging strategy cost $0.86 per Dth in 2020-2021, and $1.59 in 2022-2023 and saved $1.13 in 2021-2022. On a percentage basis, hedging represented costs to ratepayers of 33% in 2020-2021 and 23% in 2022-2023. In 2021-2022 ratepayers saved 18% relative to what they would have paid without the hedging program. This created an overall 3-year average of $0.42 per Dth or 8% cost to ratepayers.

3. *Department's Conclusion on the Reasonableness of Hedging*

Given that the natural gas market continues to be volatile, and mitigation of natural gas price volatility risk can be achieved through financial hedging activities, the Department concludes that it is reasonable for CenterPoint to continue using financial hedging and recovering the associated costs through the monthly PGA, through June 2028.

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[11] Petition, Page 13.

4. Explanation of Physical and Financial Hedging Protocols

The Department would also like to provide some additional context regarding physical and financial hedging before reviewing CenterPoint's specific protocols.

Hedging is often separated into two categories, physical and financial. Generally, physical hedging includes the natural gas a local distribution company (LDC) like CenterPoint purchases and injections into storage between the end of the prior year's heating season (March) and the beginning of the current year's heating season (November).[12] In addition, physical hedging may include any long-term fixed price contracts the LDC may have executed.[13, 14]

For most natural gas LDC's, financial hedging involves the use of financial instruments like natural gas futures or options in conjunction with purchasing physical contracts for delivery of natural gas. Historically almost all these contract's terms were one year or less. Under this approach, the LDC mitigates some portion of the price risk associated with its purchases of natural gas during the upcoming heating season.

The Department has included an example this concept in Attachment B. While hedging is a simple concept to understand, the particulars of the processes and contracts used in the financial and physical natural gas markets are sufficiently complex to warrant developing an attachment.

The Department hopes the example provided in Attachment B helps the Commission and interested parties to understand the general concept of using financial instruments to hedge price and basis risks.

CenterPoint's protocol for hedging the long index price and basis risks resulting from the purchase of significant volumes associated with the winter heating season is different from the example provided in Attachment B. The Department attempts to explain this difference in the following section.

5. CenterPoint's Protocol for Hedging Price and Basis Risks for its Baseload Hedged Contracts for the Upcoming Winter Heating Season

Referring to the hedging example provided in Attachment B, assume CenterPoint doesn't execute the 3 contracts identified in Attachment B.[15] Rather, the Company purchases one contract from a supplier that bundles those three contracts. CenterPoint defines these "bundled" supply contracts as "Baseload Hedged" contracts.

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[12] Historically, the amount of natural gas CenterPoint owns and controls in storage on November 1 of any given year is equal to approximately 25 percent of the Company's forecasted heating season load.

[13] A long-term fixed price contract is defined as an agreement with a term of more than one year in this example.

[14] The Department will provide additional detail regarding these Baseload Hedged contracts in the following section.

[15] Those three contracts are: 1) the purchase of the NYMEX futures contract for December 2024 delivery at Henry Hub; 2) the basis futures contracts for NNG Ventura for December 2024; and 3) the FOM contract for physical delivery at NNG Ventura for December 2024.

CenterPoint described its Baseload Hedged contracts as "supply contracts that incorporate the desired hedge into the supply contract, thereby accomplishing the same financial results that the Company would have if it contracted for physical supplies at an index price, then bought separate financial instruments to hedge the price of those supplies".[16]

In discussions with Department staff, the Company explained the reasoning for this approach.[17] The purchased of natural gas futures and options contracts requires a company to maintain or contract with a trading desk or organization. According to CenterPoint staff, historically neither CenterPoint Energy Minnesota, nor its parent, nor any of its parent subsidiaries' organizations has or contracts for natural gas financial instruments trading functions.

As a result, the Department's understanding is that historically CenterPoint didn't have the option of purchasing hedging-related financial instruments under its corporate structure. This organizational structure apparently required the Company to purchase the "bundled" long-term physical supply contracts mentioned earlier. Those Baseload Hedged contracts, combined with the Company's storage gas and any long-term physical supply contracts are included in CenterPoint's physical hedge category.

From the Department's perspective, CenterPoint's explanation of the circumstances leading to its use of Baseload Hedged contracts doesn't appear unreasonable. However, the Company's use of these Baseload Hedged contracts appears to meet the need for hedging the agreed-upon portion of the Company's upcoming winter season heating load. Thus, the Department doesn't see an additional need for the Company to use financial instruments to hedge price risk relative to the upcoming winter season's supply portfolio.

6. *Request for Continued Approval of the Use of Financial Hedging Instruments*

Aside from the Baseload Hedged contracts described in the previous section, CenterPoint has requested the ability to use financial instruments in these recurring filings for several years. The Commission has historically approved the Company's requests.

Specifically, the Commission approved CenterPoint's use of financial instruments to hedge the price risk associated with the Company's natural gas portfolio in a series of Orders in at least three prior dockets related to this issue.[18] In its Order dated January 13, 2020, in Docket No. G008/M-19-699 for example, the Commission provided a very specific prescription for the use of put options, a form of financial instrument. At Order Point #9, the Commission stated it: "Continue to allow CenterPoint to engage in put options in combination with call options to form a collar but disallowed the Company's use of put options for any other reason, without specific Commission approval."

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[16] Petition, Page 8.
[17] These discussions occurred on October 10, 2023, as part of a meeting on CenterPoint's 2023-2024 Gas Supply and Procurement Plan.
[18] Docket Nos. G008/M-12-166, G008/M-15-912, G00/M-19-699.

Identical language was included in the Commission's Order dated July 26, 2012, in Docket No. G008/M-12-166.

The Company renewed its request that the Commission allow it to use financial instruments to hedge in the instant docket. CenterPoint stated:

> CenterPoint Energy seeks continued approval of the ability to enter forward futures contracts, call options and put options in combination with call options to form a collar. Products used may be simple calls or collars or may be combinations of multiple calls and puts within the same instrument in order to provide varying levels of production. Additionally, CenterPoint Energy requests continued approval to utilize and recover costs for financial swaps which effectively results in a fixed price.[19]

The Company has also described the process it will use to ensure that its purchase of financial instruments for hedging is appropriate. CenterPoint referenced the Company's Risk Control Policy which delineates the protocol for the Company to purchase financial instruments in the Petition.[20] The Company also included an explanation as to why no Affiliated Interest filing would be required if CenterPoint decides to use financial instruments to hedge.

CenterPoint also confirmed that the Company has not used financial instruments to hedge for the past two winter heating seasons and is not planning to use financial instruments to hedge for the next two winter heating seasons in the Company's response to Department Information Request No. 5.

This information request asked for the actual and forecasted direct transactional costs, including broker fees, and option premiums for the years 2021 and 2022 in subpart 1 and the forecasted direct transactional costs, including broker fees and option premiums for the years 2023 and 2024 in subpart 2.

The Company responded:

> As mentioned in question 1, the Company has not yet utilized financial hedging as part of its portfolio. The Company continues to include this as part of the request so that if the Company decides to enter financial hedges, the Company has the ability to do so. As of now, the Company does not have any transactional costs from financial hedging.[21]

CenterPoint's response could be interpreted as agreeing with the Department's earlier statement that the protocol for executing its Baseload Hedged contracts mitigates that portion of the price risk

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[19] Petition at page 7.
[20] *Ibid* at page 8.
[21] See Attachment C for a copy of Department Information Request no. 5 and the Company's response.

associated with the Company's winter season supply portfolio for the upcoming winter. The Company has had the option of pursuing the use of financial instruments to hedge the price risk associated with its upcoming winter season supply portfolio for its Minnesota customers for several years. It has not exercised that option, apparently due to the absence of an affiliated trading desk.

CenterPoint also provides some support for this interpretation, stating in the Petition:

> While we believe that physical hedging and financial hedging yield approximately equivalent results at approximately equal costs, we believe the continued ability to use financial instruments to hedge provides flexibility in timing, and request the Commission allow us the continued ability to use this tool as well.[22]

This statement, when paired with Company staff's previously noted statement that CenterPoint does not have the ability to trade financial instruments to hedge the prices risk associated with its upcoming winter heating season supply is somewhat confusing.

Department and CenterPoint staff met via telephone on November 13, 2023. The meeting's goal was to discuss several issues the Department had identified in the filing. During that meeting, CenterPoint staff explained that the Company's parent CenterPoint Energy Inc. doesn't currently have an affiliated trading desk but that one could be developed at some point in the future. CenterPoint Minnesota would like to maintain the option that it could use financial instruments if its parent develops that function or capability during the next four years.

Company staff also explained that its requested $6.5 million annual limit on net option premiums includes options embedded in its Baseload Hedged contracts, as well as any option premiums associated with financial instruments, should the Company decide to use them in the future in response to a question from Department staff. This was a helpful clarification as the Department was unsure whether that annual limit on net option premiums applied to the Basehold Hedging contracts and any potential financial instruments, only Baseload Hedging contracts or only contracts associated with the proposed financial instruments' function.

Department staff also asked CenterPoint in the meeting if the Company would be amenable to the inclusion of an additional reporting requirement which would require CenterPoint to notify the Commission if it has developed an affiliated trading desk and is proceeding with initiating a hedging effort that uses financial instruments CenterPoint purchased on its Minnesota customers behalf as part of the hedging program. The Department suggested this reporting requirement to notify the Commission and other interested parties of a potentially significant change in CenterPoint's hedging efforts.

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[22] Petition at page 7.

CenterPoint staff agreed that the proposed additional reporting requirement is appropriate. Hence, the Department recommends the Commission include an additional reporting requirement in its Order which would require CenterPoint to notify the Commission if it has developed an affiliated trading desk and is proceeding with initiating a hedging effort that uses financial instruments CenterPoint purchased on its Minnesota customers behalf as part of the hedging program.

While the addition of this reporting requirement doesn't eliminate all the Department's concerns related to the financial instruments portion of the Company's hedge plan, it alleviates our concerns to the extent that the Department is willing to recommend the Commission continue to approve CenterPoint's use of the financial instruments in its hedge plan.

The financial instrument portion of CenterPoint's hedge plan includes several components. The Department provides its analysis and recommendations regarding the Company's request for the following components of its proposed financial hedging plan:

1. Set an overall limit on hedging volume of 70 Bcf;
2. Allow multi-year hedging contracts of up to 60 months duration; with annual limits on volume for years 2024-2025 and 2025-2026 of 20 Bcf; with annual limits on volume for years beyond 2025-2026 of 10 Bcf;
3. Set an annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
4. Allow the variance to apply to all financial positions that CenterPoint enters through June 30, 2028;
5. Allow the use of put options only in combination with a call option to form a collar; and
6. Deny recovery of interest costs thru the PGA.

6. Analysis of the Components of CenterPoint's Financial Hedging Plan

1. *Proposal to Increase its Multi-Year Hedging Volume Limit to 70 Bcf from 65 Bcf and*
2. *Continuation of the Multi-Year Contract Duration for 60 months with Certain Annual Limits*

The Department grouped CenterPoint's requests to place a 70 Bcf cap on hedging of its gas supplies at any given time and to maintain the length of its multi-year hedging contracts it is allowed to buy to 60 months along with certain annual limits together. The proposed increase in the cap from the current 65 Bcf to the proposed 70 Bcf would be applied to the 60-month period identified in the second item.

The 65 Bcf multi-year hedging volume limit was first proposed and approved in Docket No. G008/M-08-777.[23] The Company provided Attachment A to its Reply Comments that included examples as to how the proposed 65 Bcf limit might be used. Table 4 recreates one of the examples included in

[23] The Commission's Order in this docket was issued March 6, 2009.

Attachment A of those Reply Comments. This example, titled "Likely Scenario" illustrates how the multi-year hedging limit could work.

The first row of the table represents hedge positions the Company has taken prior to the start of the 2008/2009 hedging season. As shown, in the example, the Company has taken positions totaling 65 Bcf spread over five years. Then, prior to the start of the 2009/2010 heating season ("proposed year 2"), the Company adds to its existing hedged positions for each heating season. For example, for the 2009/2010 heating season, it adds 16 Bcf of new hedged purchases to the 10 Bcf it had secured for 2009/2010 the prior year, giving it a total of 26 Bcf of hedged purchases for the season. As time rolls forward, it continues to layer on hedged purchases. In this example, the 65 Bcf limit is reached in only one year of the example, Proposed Year 1.

Table 4: Example of How the 65 Bcf Multi-Year Hedging Limit Might Work from Attachment A in Docket No. G008/M-08-777
(Bcf/yr.)

Description	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Sum of 5 Years
Proposed Year 1	26	10	10	10	9			65
Proposed Year 2	0	16	7	7	7	7	0	44
Proposed Year 3			9	9	9	9	9	45
Proposed Year 4				0	1	10	13	24
Proposed Year 5					0	0	4	4
Total by Year	26	26	26	26	26	26	26	182

Table 5 provides a similar analysis to the one in Table 4 except that the dates and amounts hedged have been updated and include CenterPoint's proposed 30% annual limit and the 70 Bcf multi-year hedging limit.[24]

Like the results in Table 4, the proposed 70 Bcf Multi-year Hedging Limit is only reached in Proposed Year 1 in Table 5. The overall increase in the total amount of the volumes of Hedged Baseload contracts over the seven-year period is significantly higher using CenterPoint's proposed annual and multi-year limits than the limits that are currently approved. The difference in total hedged volumes is 93 Bcf compared over the five-year period, or a 51% increase from the current limit of 182 Bcf.

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[24] The Department will provide its analysis and recommendation regarding CenterPoint's proposed 30 percent annual limit in the following section.

Table 5: Example of How the 30% Annual Hedged Baseload Contract and 70 Bcf Multi-Year Hedging Limits Might Work (Bcf/yr.)[25, 26]

Description	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Sum of 5 Years
Proposed Year 1	38	20	10	2	0			70
Proposed Year 2	0	19	10	10	5	13	0	57
Proposed Year 3			20	10	8	10	10	58
Proposed Year 4				20	10	10	10	50
Proposed Year 5					20	10	10	40
Total by Year	38	39	40	42	43	43	30	275

CenterPoint provided no analysis supporting its proposed increase to the multi-year hedging limit to 70 Bcf from 65 Bcf. Hence, the Department recommends the Commission reject the Company's proposal to increase the 60-month hedging limit to 70 Bcf from 65 Bcf until CenterPoint can provide an analysis that demonstrates ratepayers would benefit from the proposed change.

Turning to the 60-month duration contracts' annual limits, the Department requested additional information in Information Request 3 regarding the proposed increases and decrease for the multi-year contracts. CenterPoint responded with the following:[27]

> For the years 2024-2025 and 2025-2026: CenterPoint Energy proposes to increase the 13 Bcf per year limit to a volume that is not to exceed 20 Bcf during the nearest 24 months while the 10 Bcf will be treated as a volume that must be procured. The 20 Bcf will be treated as an allowance and not a mandatory target.
>
> For years 2026-2027, 2027-2028, and 2028-2029: CenterPoint Energy proposes to decrease the 13 Bcf per year limit to a volume not to exceed 10 Bcf. The 10 Bcf will be treated as an allowance and not a mandatory target.
>
> Market liquidity more than 24 months in CenterPoint Energy's territory is limited. Forcing transactions to more than 10 Bcf outside of the nearest 24 months in advance of delivery might have a counterproductive effect. Allowing for a greater absolute Bcf limit in the nearest 24 months will enable CenterPoint Energy to make best use of its risk management advisory services and to react to market conditions. The increase in annual

[25] The Department did not have access to the Company's proposed Baseload Hedging Contract annual limits, so we elected to assume relatively slow growth in those annual totals.
[26] The Department assumes CenterPoint will file to extend this variance in 2027. That would allow the Company to "reset" its annual and multi-year limits so the decrease in the hedged volumes in the 2029-2030 are not relevant.
[27] Attachment D includes CenterPoint's response to Department Information Request #3.

> limits also supports CenterPoint Energy's main reasoning behind its requested hedging order modifications which is to support year-over-year customer growth."

The Department will defer to CenterPoint's expertise on market liquidity over time. If these changes will allow the Company to make better use of its risk management advisory services, then the Department recommends approval. However, the Department is concerned by the Company's statement that for 2024-2025 and 2025-2026 the 10 Bcf will be treated as a minimum volume that must be procured. During its November 13, 2023, call referenced above, CenterPoint staff indicated that the Company has used multi-year contracts only very sparingly in recent years, and in amounts less than 10 Bcf, so it is not clear why it would be reasonable to significantly increase the use of these contracts now.

Therefore, the Department recommends the Commission approve the Company's proposal to allow multi-year hedging contracts of up to 60 months with annual limits on volume for the subsequent 24 months of 20 Bcf; and annual limits on volume for years beyond that 24-month limit of 10 Bcf. The Department does not recommend the Commission accept the Company's proposal for the 10 Bcf minimum it proposes to procure for 2024-2025 and 2025-2026 as CenterPoint has not provided any support for that statement.

The following provisions in the current variance request are unchanged from the previous variance request.

1. Set an annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
2. Allow the variance to apply to all financial positions that CenterPoint enters through June 30, 2028;
3. Allow the use of put options only in combination with a call option to form a collar; and
4. Deny recovery of interest costs through the PGA. [28]

These limitations and restrictions are consistent with those the Commission approved in Docket No. G008/M-19-699.[29] The Department notes the Company's response to Department Information Request No. 5 (Attachment C) stated CenterPoint had not incurred any option premiums to date given the Company has not utilized financial hedging as part of its portfolio. Thus, the annual limit on net option premiums of $6.5 million has been only a theoretical limit to date.

Assuming the Commission agrees with the Department's recommendation that CenterPoint should be allowed to continue to have the option to use financial instruments to hedge its price risk, the Department believes these provisions continue to be relevant and that the $6.5 million limit on net

[28] Petition, Page 6.
[29] https://efiling.web.commerce.state.mn.us/edockets/searchDocuments.do?method=showPoup&documentId={60709F6F-0000-C71D-AC52-72F8D23F3602}&documentTitle=20201-159038-01

option premiums, the variance request, the limits to the use of put options and the denial of the recovery of interest costs through the PGA are reasonable. Thus, the Department recommends that the Commission approve the four items listed above.

As noted in Attachment A, CenterPoint is proposing changes to three of the limits the Commission approved in Docket No. G008/M-19-669 (items 1, 2, and 3 in the list on page 10).

7. Proposed Change to the Annual Hedging Volume Limits

CenterPoint proposes to modify its current annual volume hedged using Baseload Hedged contracts from 26 Bcf to 30% of the Company's expected normal winter load requirements. Given that this proposed change affects the amount of Baseload Hedged contracts CenterPoint can transact on an annual basis, the Department separated this proposed change from the two others identified in Attachment A. This proposed change will affect the Company's hedging program whether CenterPoint can use financial instruments or not.

This proposal would modify the Company's methodology from an absolute limitation to one that varies with the expected load requirements. CenterPoint's hedging parameters for its Baseload Hedging contracts have been in place since 2008 with the Commission's Order in Docket G008/M-08-777, dated March 6, 2009.[30] To assist in determining the reasonableness of the request, the Department requested CenterPoint provide a detailed explanation for the proposed change. The Company's response is as follows:[31]

> CenterPoint proposes to modify the hedge limit from its current volumetric limit of 26 Bcf to one that is expressed as a percentage of the expected normal load requirements, and to set the percentage limit at 30%. One of the key components of CenterPoint's supply strategy is to procure gas purchases at a stable and reasonable price which is accomplished with storage gas and hedged gas. CenterPoint's customer base is continuously growing year-over-year and placing a volumetric limit on hedged volumes hinders the Company's ability to achieve its desired stabilization rate. Rather basing the annual limit on a percentage gives CenterPoint the flexibility to increase hedged volumes year-over-year as needed to accommodate future customer growth.

In addition to the above statement, CenterPoint provided a table showing the total planned requirements for the last five years and the upcoming winter 2023-2024. Using the annual requirement data the Company provided, the Department created Table 6.a to compare CenterPoint's approved and proposed annual Baseload Hedging amounts.

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[30] https://efiling.web.commerce.state.mn.us/edockets/searchDocuments.do?method=showPoup&documentId={E53E5877-F4AC-4A9A-9C6D-85329A148F8A}&documentTitle=5804025

[31] See Attachment E CenterPoint Response to Department Information Request #4.

Table 6.a shows CenterPoint's:

- Annual heating season total requirements (Bcf) in the first column,
- The annual percentage change in the Company's Total Requirements in the second column;
- The current approved annual allowance for Baseload Hedged contracts in the third column:
- The percentage of the Total Requirements covered by Baseload Hedged contracts in the fourth column and,
- The proposed annual allowance for Baseload Hedged contracts assuming 30% of the Total Requirements are hedged via that instrument in the fifth column,
- The increase in the annual amount hedged using Baseload Hedged contracts when the current and proposed annual limits are compared in the sixth column.

Since the 2018-2019 winter season, the Company has forecasted an 11% growth in annual heating season total requirements while the hedging limit on the amount of gas hedged has remained constant. Because of the growth in annual total requirements, the percentage of the volumes hedged using Baseload Hedging contracts compared to the forecasted Total Requirements has declined from 23% to 21% according to the Company.

Table 6.a: CenterPoint's Current and Proposed Annual Baseload Hedging Limits (Bcf/Winter Heating Season)

Winter Season	Total Requirements (Bcf)	Percent Increase (Decrease)	Current Annual Limit for Baseload Hedged Gas (Bcf)	Baseload Requirements Hedged % - Current	Limit for Baseload Hedged Gas at 30% (Bcf)	Difference - Amounts of Annual Baseload Hedges (Bcf)
2018-2019	114		26	23%	34	8.00
2019-2020	118	4%	26	22%	35	9.00
2020-2021	122	3%	26	21%	37	11.00
2021-2022	126	3%	26	21%	38	12.00
2022-2023	125	-1%	26	21%	38	12.00
2023-2024	126	1%	26	21%	38	12.00
Total Change	12	11%				

The Department's review of the information in Table 6.a concluded that CenterPoint had included volumes associated with third-party transport in its calculation. The Department does not agree with this approach. CenterPoint is not responsible for sourcing the natural gas that it transports for third parties on its distribution system.[32] The Department provides Table 6.b as an alternative to Table 6.a. The information in Table 6.b uses Total System Purchases, not Total System Supply as the basis for calculating the percentage of baseload requirements hedges for this period.

[32] CenterPoint staff agreed with this statement in the November 13, 2023, meeting.

Table 6.b compares the difference in the current and proposed annual limits on Baseload Hedging contracts for 2018 through 2024.

Table 6.b -Department's Estimate of CenterPoint's Current and Proposed Annual Baseload Hedging Limits Using Total System Purchases (Bcf per Winter Heating Season)

Winter Season	**Total System Purchases ("TSP") (Bcf)**	**Percent Increase (Decrease)**	**Current Limit for Baseload Gas Hedged (Bcf/Winter Heating Season)**	**Percent Hedged (%)**	**Limit for Baseload Hedged Gas at 30% of TSP (Bcf)**	**Difference between Current and Proposed Amounts of Annual Baseload Hedges (Bcf)**
2018-2019	96		26	27%	29	3
2019-2020	96	0%	26	27%	29	3
2020-2021	104	9%	26	25%	31	5
2021-2022	108	4%	26	24%	32	6
2022-2023	104	-4%	26	25%	31	5
2023-2024	102	-2%	26	25%	31	5
Net Change 2018 - 2023	6	6%				

The use of Total System Purchases instead of Total System Requirements as the starting point for the calculation increases the percent of the supply portfolio that was hedged using Baseload Hedged Gas. It also lowers the amounts of Baseload Purchased Gas that would have been allowed over this time assuming the existence of the proposed 30 percent limit.

Table 7 compares the difference in the current and proposed annual limits on Baseload Hedging contracts for 2018 through 2024.

Table 7: Comparison of CenterPoint's Current and Proposed Annual Hedging Limits 2018 -2024 Assuming Total System Purchases(Bcf/yr.)

Winter Season	Current Annual Limit (Bcf)	Proposed Annual Limit Equal to 30% (Bcf)	Annual Difference (Bcf/year))	Percentage Change from Current Limit %
2018-2019	26	29	3	11%
2019-2020	26	29	3	11%
2020-2021	26	31	5	20%
2021-2022	26	32	6	25%
2022-2023	26	31	5	20%
2023-2024	26	31	5	18%

The Department asked CenterPoint in Department Information Request No. 7 if the Company had performed a cost/benefit analysis that identified an estimated ratepayer impact of this proposed change.

CenterPoint provided the following response.[33]

> Increasing the hedge limit provides CenterPoint Energy more opportunity to provide price stabilization to our customers. An "estimated payer rate impact" is not possible to predict. The goal is to protect ratepayers from price spikes. Gas is a commodity subject to market pricing; hedging tools provide stabilization. The Company will continue to report on its annual hedging performance in the Company's annual AAA report.

The Department recognizes the primary goal of hedging is to lessen the effects of significant and sustained price increases in the natural gas markets on ratepayers. The Department is also aware adjustments must be made over time to account for volumetric need as customers and requirements increase. At the same time, the Department is not inclined to support a proposal to increase customer costs without an analysis that demonstrates the relative benefits to those customers associated with the proposed cost increase.

Given that CenterPoint has not provided that supporting analysis, the Department developed an estimate of the costs associated with the estimated percentage increases in the annual volumes for the 2020-2021, 2021 –2022 and 2022-2023 winter heating seasons.

The Department created Table 8 using the Company's cost per dekatherm found in the Analysis of Hedged Purchases[34] and the incremental difference in annual hedged volumes between the current and proposed methods included in Table 7. The goal was to provide an estimate of the historical impact of this proposed change on ratepayers for the period 2020 - 2023.

Table 8 assumes the proposed increase to the annual hedging volumes would have the same historical cost per dekatherm for the 2020-2021, 2021-2022 and 2022-2023 heating seasons. While this is an *unlikely scenario*, the Department figured any reasonable cost estimate, even an unlikely one is preferable to no cost estimate.

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[33] See Attachment F for CenterPoint Response to Department Information Request #7.
[34] The Analysis of Hedged Purchases Table can be found in the Company's Petition, Page 14.

Table 8: Estimated Financial Effects of 30 Percent Annual Hedge Limit Compared to Current Annual Hedging Limit
($/yr.)

Winter Season	Proposed Change (BcF)	Cost per Dekatherm	Estimated Impact $Millions	Actual Cost $Millions	Percentage Increase %
2020-2021	5	$0.86	$4.30	$19.73	22%
2021-2022	6	($1.13)	($6.78)	($29.27)	23%
2022-2023	5	$1.59	$7.95	$41.34	19%
Average	5.3	$0.44	$1.8	$10.6	17%

In this hypothetical scenario, if the 30 percent limit in the annual hedged volumes would have been in effect, ratepayers would have paid an average increased annual cost of $1.8 million annually over the three-year period. This represents a roughly 17% increase in the cost of hedging those larger annual volumes under the proposed 30 percent limit for the years in question relative to the current 26 Bcf annual limit.

The Department has concerns regarding the increased annual costs that will result from an increase in the volumes hedged using Hedged Baseload contracts. The three-year average of the cost of the hedging program to ratepayers was $10.6 million according to CenterPoint.[35] Increasing that annual average cost by $1.8 million would result in a 17% increase in the average cost of the hedging program over that three-year period.

Given that the Company has provided no quantitative support for this proposed increase, the Department concludes CenterPoint's proposal to modify the annual limit to 30% of the total requirements is unreasonable. The Department recommends the Commission not accept the Company's proposed 30 percent limit due to its potential financial effects on ratepayers and a lack of support for or explanation of the potential benefits of the change.

The Department recommends instead that the Commission set CenterPoint's proposed annual limit of Hedged Baseload gas to 25% of the Company's Total System Purchases. The Department's proposed 25% limit would:

- result in essentially no increase in the annual amount of Hedged Baseload volumes compared to the current 26 Bcf annual limit for Hedged Baseload gas for the 2022-2023 and 2023-2024 heating seasons.
- Be consistent with current CenterPoint practice of hedging approximately 25% of the Total Requirements via Baseload Hedged contracts.
- Not increase the hedging program's annual costs to ratepayers.

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[35] *Ibid.*

Table 9 provides a similar analysis to that included in Table 6.b except that the annual limit for Hedged Baseload gas is 25%, not the current 26 Bcf. The difference between the two approaches for calculating the annual amount of Hedged Baseload volumes is negligible.

Table 9* : *Comparison of CenterPoint's Current and Department Proposed Annual Baseload Hedging Limits (in %)

Winter Season	Total System Purchases Annual % Change	25% Annual Limit for Hedged Gas (BcF)	Current Annual Limit (Bcf)	Annual Difference (Bcf/year))	Department Change from Current Limit %
2018-2019		24	26	-2	-8%
2019-2020	0%	24	26	-2	-8%
2020-2021	9%	26	26	0	0%
2021-2022	4%	27	26	1	4%
2022-2023	-4%	26	26	0	0%
2023-2024	-2%	26	26	-1	-2%
Net Change 2018-2023	6%	2			

The Department's 25 percent limit appears to be consistent with the current 26 Bcf Annual Limit. Table 10 develops an estimate of the costs the Company's ratepayers would incur if the Baseload Hedging limit were set at 25%.

Table 10: Estimated Financial Effects of 25 Percent Annual Hedge Limit Compared to Current Annual Hedging Limit and CenterPoint's Proposed Percentage Cost Increase ($/yr.)

Winter Season	Department Proposed Change (Bcf)	Cost per Dekatherm	Estimated Impact $Millions	Actual Cost $Millions	Department Increase %
2020-2021	0	$0.86	$0.00	$19.73	0%
2021-2022	1	($1.13)	($1.13)	($29.27)	4%
2022-2023	0	$1.59	$0.00	$41.34	0%
Average	0.3	$0.44	($0.4)	$10.6	-4%

Ratepayers hedging costs for the three years are essentially flat when one compares the 25 percent hedge limit with the current 26 Bcf/year limit.

The Department recommends the Commission use the Company's Total System Purchases as the starting point for this calculation and that the current 26 Bcf annual limit be changed to a 25 percent annual limit for Hedged Baseload volumes. This modification will allow the annual amount hedged via Hedged Baseload volumes to increase as CenterPoint's annual Total System Purchases increase.

B. ACCOUNTING AND REPORTING

In its Petition, the Company stated that it did not propose any changes to the accounting for its financial hedging instruments. Rather, CenterPoint proposes to continue (1) recording transaction outcomes based on the settlement cost of each of the financial instrument transactions and in the Federal Energy Regulatory Commission (FERC) Account 804 – Natural Gas City Gate Purchases and (2) maintaining records of each specific transaction, including the gain or loss and other transaction costs, such that there is an audit trail for each transaction. CenterPoint also proposes to maintain the same reporting requirements as approved by the Commission in the last hedging variance request.[36] The Department concludes that the proposed accounting and reporting requirements are reasonable and recommends that the Commission incorporate these requirements into its order in this matter.

C. CRITERIA FOR GRANTING A VARIANCE TO A MINNESOTA RULE

Minnesota Rules 7829.3200 outlines three conditions that must be met for the Commission to grant a variance to a Minnesota rules.[37] In its prior related petitions, CenterPoint provided, and the Commission accepted, relatively consistent supporting reasoning as to why the Company's requests met the criteria required for Commission approval of a rule variance. In its current Petition, the Company continues to assert that its proposal meets the relevant standards detailed in Minnesota Rules 7829.3200. The following discussion addresses the three criteria to be considered by the Commission in determining whether it may grant a rule variance.

A. **Enforcement of the rules would impose an excessive burden upon the applicant or other affected by the rules**: According to CenterPoint, by granting a variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700, and allowing the Company cost recovery of hedging costs, the Commission makes it possible for the Company to efficiently and cost-effectively use financial instruments to mitigate existing and future natural gas price risk. Through its financial hedging activities, CenterPoint has an opportunity to reduce retail natural gas rate volatility.[38]

B. **Granting the variance would not adversely affect the public interest**: As explained in section A of the instant Comments, granting a variance in this case stands to provide potential benefits, rather than harm, to both the Company and its ratepayers through reduced natural gas price volatility. CenterPoint also specifically stated in its Petition that

[36] Petition, Page 9.
[37] https://www.revisor.mn.gov/rules/7829.3200/
[38] Petition, Page 10.

the public interest would not be adversely affected by an extension of the rule variance. The Department notes that there is nothing in the Company's proposal that would preclude the Commission from exercising its authority in the future to disallow imprudent or unreasonable transactions, which provides further protection of the public interest.[39]

C. **Granting the variance would not conflict with standards imposed by law**: As it has done in its prior related dockets, the Company stated that it is not aware if any laws with which the proposed variance would conflict. The Department is also not aware of any laws with which the proposed variance would conflict.[40]

As noted previously, the Commission has consistently determined in prior variance requests that the Company's proposal meets the criteria required to grant a variance to the relevant Minnesota Rules. In the current Petition, CenterPoint provided the same reasoning it used in prior related dockets to demonstrate that request meets the requirements of Minnesota Rules 7829.3200.

The Department concludes that the Company has shown that its proposal meets the criteria for granting a rule variance.

D. EXTENSION OF CURRENT VARIANCE

Given the mitigation of natural gas price risk that can be achieved through hedging activities, the Department concludes that CenterPoint's continued use of hedging and recovery of associated costs through the monthly PGA is reasonable. The Department supports the Company's continued use of appropriate hedging instruments but emphasizes it does have concerns of the annual average cost of gas increasing to an unreasonable level over time. The Department will continue to monitor the annual average cost of gas through the PGA to ascertain ratepayers are not paying unreasonable levels for hedging instruments.

In its January 13, 2020, Order in Docket No. G008/M-19-699,[41] the Commission granted CenterPoint a variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700, allowing CenterPoint to recover, through the PGA, the costs of certain financial instruments entered by June 30, 2024. The Company now requests that the Commission grant a four-year extension, ending June 30, 2028, to the currently approved variance. The Department emphasizes that its support for a variance is contingent upon CenterPoint using physical and potentially financial instruments exclusively for hedging price risk associated with the Company winter heating season supply on behalf of ratepayers, and not for speculative purposes.

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[39] *Id.*
[40] *Id.*
[41] https://efiling.web.commerce.state.mn.us/edockets/searchDocuments.do?method=showPoup&documentId=%7b60709F6F-0000-C71D-AC52-72F8D23F3602%7d&documentTitle=20201-159038-01

III. RECOMMENDATIONS

The Department concludes certain aspects of CenterPoint's Petition are reasonable while others require modification.

The Department recommends the Commission approve the following requests:

1. Allow multi-year hedging contracts of up to 60 months duration; with annual limits on volume for years 2024-2025 and 2025-2026 of 20 Bcf; with annual limits on volume for years beyond 2025-2026 of 10 Bcf;
2. Maintain the existing annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
3. Allow the variance to apply to all financial positions that CenterPoint enters through June 30, 2028;
4. Allow the use of put options only in combination with a call option to form a collar; and
5. Deny recovery of interest costs thru the PGA.
6. Find that CenterPoint's variance extension request complies with the requirements set forth in Minnesota Rules 7829.3200;
7. Require CenterPoint to report data and follow the reporting requirements as detailed in Section 6.2 Proposed Regulatory Reporting of CenterPoint's Petition;
8. Require CenterPoint to include, in future variance requests, a ratepayer benefit analysis like that shown in Section 7.3 Ratepayer Benefit Analysis of CenterPoint's Petition;
9. Require CenterPoint to file, as a compliance, in this docket, a copy of its hedging plans each year after the plan has been approved by Company management;

The Department also recommends the Commission approve the following recommendations that are modifications of CenterPoint's requested changes:

1. Maintain the overall limit on hedging volume at 65 Bcf;
2. Change the annual limit on Baseload Hedging contract volume from 26 Bcf to 25% of CenterPoint Energy's forecasted Total System Purchases for the subsequent winter heating season.
3. Deny the Company's request that 10 Bcf of hedging for 2024-2025 and 2025-2026 be classified as a minimum.

The Department also recommends the following new reporting requirement:

4. Require CenterPoint to notify the Commission if it has developed an affiliated trading desk and is proceeding with initiating a hedging effort that uses financial instruments CenterPoint purchased on its Minnesota customers behalf as part of the hedging program.

Attachment A – Comparison of Limitations and Restrictions Approved in the Commission's Order dated January 13, 2020, in Docket No. G008/M-19-699 and CenterPoint's Proposed Limitations and Restrictions in Docket No. G008/M-23-360 and Department Recommendations

(Proposed Changes Highlighted)

Line No.	Description	Approved in Docket No. G008/M-19-699	Proposed in Docket No. G008/M-23-360	Proposed Changes to Approved Limitations/Restrictions	Department Recommendation
1.	Determine CenterPoint's variance complies with the requirements set forth in Minnesota Rules 7825.3200	Yes	Yes	No change	Approve
2.	Extend the variance to Minnesota Rules parts 7825.2400, 7825.2500, and 7825.2700 for a four-year period	Yes, variance applies through June 30, 2024	Variance would apply through June 30, 2028	Four-year extension	Approve
3.	Allow the variance to apply to all Commission-approved financial positions that CenterPoint enters into	Through June 30, 2024	Through June 30, 2028	Four-year extension	Approve
4.	Annual limit on hedging volumes	26 billion cubic feet (BcF)	30 percent of of CPE's expected normal winter load requirements	Change from annual limit to a percentage-based limit	Approve change to percentage-based limit of 25% of Total System Purchases
5.	Overall (multi-year) hedging limit	65 BcF	70 Bcf	Increase of 5 BcF hedged over 60 month period	Approve current limit of 65 Bcf
6.	Allow multi-year hedging contracts up to 60 months in duration	Yes	Yes	No change	Approve
7.	Identified multi-year limits for years beyond 2024-2025 of 13 BcF	Yes	20 BcF limit for 2024-2025 and 2025-2026 and 10	Increase of 7 BcF potentially hedged via multi-year agreements	Approve except for requirement of 10 Bcf annual minimum

			BcF for years beyond 2025-2026	by for 2024-2025 and 10 BcF for2025-2026. Decrease of 3 BcF for years beyond 2025-2026	
8.	Annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas	Yes	Yes	No change	Approve
9.	Disallow recovery of interest costs through the Purchased Gas Adjustment	Yes	Yes	No change	Approve
10.	Continue to allow CenterPoint to engage in put options in combination with call options to form a collar, but disallow the Company's use of put options for any other reason, without specific Commission approval	Yes	Yes	No change	Approve
11.	Reporting requirements detailed in Section 6.2 of the Company's filing	Yes	Yes	No change	Approve
12.	Require CenterPoint to include in future variance requests, a ratepayer benefit analysis similar to that shown in Section 7.3 Ratepayer Benefit Analysis of CenterPoint's Petition.	Yes	Analysis was included in the filing	Complied with requirement	Approve
13.	Continue requirement that CenterPoint file, as compliance in this docket, a copy of its hedging plan each year after the plan has been approved by Company management.	Yes – Company has complied by filing annual Gas Procurement Plan filing.	Yes	No change	Approve

14.	Reporting requirement that CenterPoint notify the Commission if it is initiating the financial instruments portion of its hedging program	No	Yes	No – new requirement	Approve

Attachment B – Hedging Example Using a Combination of a Natural Gas Futures Contract and a Contract for Physical Delivery

There are several methods and contract combinations that allow a natural gas local distribution company to hedge the price risk associated with its winter season heating portfolio. The combination of a natural gas futures contract and a contract for physical delivery of the natural is the one that appears to be the most used in the Department's experience, and the Department provides an illustrative example of this process below.

1. On August 1, 2024 LDC#1 agrees to purchase 10,000 MMBtu of physical natural gas at the Ventura hub on Northern Natural Gas pipeline.[1]
    a. The price/MMBtu for the contract is First of the Month (FOM).[2]
    b. The price/MMBtu LDC #1 will pay for the 10,000 MMBtu of natural gas that will be physically delivered to the Ventura Hub is calculated using the *forecasted* average daily price of gas in December 2024 using the FOM protocol.[3]
    c. Under this contract, LDC #1's risk has moved from a physical commodity risk to a long-index price risk. LDC #1 will not know the price it will pay for that 10,000 MMBtu until December 1, 2024.
2. One way to mitigate this long-index price risk is to purchase a futures contract for December delivery.
    a. Assume also on August 1, 2024, LDC #1 purchases one financial futures contract on the NYMEX for the delivery at the Henry Hub for December 2024.[4] The price of the natural gas is $2.50/MMBtu.[5]
    b. By purchasing this future contract LDC #1 has "hedged" the price risk associated with the gas commodity component of the contract for the physical delivery of the natural to Henry Hub.
    c. In this example, the natural gas under contract will be delivered to the Ventura Hub, which is some distance from the Henry Hub. The cost of transporting natural gas from Henry Hub to the Venture Hub is referred to as the "basis". So LDC #1 still is exposed to the basis risk associated with the "physical" contract.

[1]

[2] FOM pricing represents the price of gas that will flow every day during the forthcoming calendar month. www.naturalgasintel.com/bidweek-first-of-month -index/.

[3] Those forecasted daily prices are determined during "Bid Week" which is defined as the week during which the New York Mercantile Exchange's Henry Hub natural gas futures contract for the immediate month terminates.

[4] A NYMEX futures contact is for 10,000 MMBtu of natural gas. So the amounts of the physical and financial contract purchased are equal.

[5] LDC #1 pays the contracts counter-party $2.50/MMBtu x 10,000 MMBtu or $25,000.

3. LDC #1 can purchase 4 NNG Ventura Basis Futures contracts for December 2024 delivery on the Intercontinental Commodity Exchange (ICE).[6] The price per MMBtu for these contracts is $0.10/MMBtu.[7]
4. With these futures contracts, LDC #1 has locked in a price of $2.60/MMBtu for its December purchase, regardless of the actual Ventura FOM price on December 1.[8]
5. Now assume it is December 1, 2024. The Department will identify two scenarios for this example.
6. Under Scenario #1, the natural gas price level has increased significantly since August 1st due to geopolitical risks.
    a. The FOM Index price for December 2024 at Henry Hub is $3.00/MMBtu.
    b. The forecasted basis price is unchanged at $0.10/MMBtu.
    c. The FOM Index price at NNG Ventura for December 2024 is $3.10/MMBtu.
    d. LDC #1 sells its Henry Hub futures contract for December delivery for $3.00/MMBtu.
    e. LDC #1 receives $30,000 from the sale of this contract.
    f. LDC #1 also sells its 4 basis futures contracts to NNG Ventura for $0.10/MMBtu. It receives $1,000 for those four contracts.
    g. LDC #1 pays its counter-party for the physical contract $31,000 for the 10,000 MMBtus delivery to LDC #1 at NNG Ventura.
    h. The Company makes $5,000 on the financial futures contract ($30,000 sales price minus $25,000 purchase price).
    i. LDC #1 breaks even on the basis futures contracts ($1,000 sale price minus $1,000 purchase price = $0.)
    j. The Company will add the gain from the sale of the futures contract and the $0 gain on the sale of the basis contracts to the physical contract purchase price to determine the net price paid for the natural gas. ($31,000 - $5,000 - $0 = $26,000 or $2.60/MMBtu)
    k. The $2.60/MMBtu net price is equal to the $2.60/MMBtu LDC #1 locked in on August 1 with its futures contracts. Thus, the Company successfully hedged its long-term index price and basis risks.
7. Under Scenario #2, the natural gas price level has decreased significantly since August 1st due to geopolitical risks.
    a. The FOM Index price for December 2024 at Henry Hub is $2.00/MMBtu.
    b. The forecasted basis price is unchanged at $0.10/MMBtu.
    c. The FOM Index price at NNG Ventura for December 2024 is $2.10/MMBtu.

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[6] The contract size for this financial instrument is 2,500 MMBtu. LDC #1 will have to buy 4 contracts to hedge the 10,000 MMBtu basis risk it is exposed to if it wants to hedge the entire amount.

[7] LDC #1 would pay the counterparties $1,000 (10,000 MMBtu x $0.10/MMBtu) for those 4 contracts.

[8] $2.50/MMBtu for the gas commodity and $0.10 for the basis between Henry Hub and NNG Ventura.

d. LDC #1 sells its futures contract for December delivery for $2.00/MMBtu.
e. LDC #1 receives $20,000 from the sale of this contract.
f. LDC #1 also sells its 4 basis futures contracts to NNG Ventura for $0.10/MMBtu. It receives $1,000 for those four contracts.
g. LDC #1 pays its counter-party for the physical contract $21,000 for the 10,000 MMBtus delivery to LDC #1 at NNG Ventura.
h. The Company loses $5,000 on the financial futures contract ($20,000 sales price minus $25,000 purchase price).
i. LDC #1 breaks even on the basis futures contracts ($1,000 sale price minus $1,000 purchase price = $0.)
j. The Company will subtract the loss from the sale of the futures contract and the $0 loss on the sale of the basis contracts to the physical contract purchase price to determine the net price paid for the natural gas. ($21,000 + $5,000 + $0 = $26,000 or $2.60/MMBtu)
k. The $2.60/MMBtu net price is equal to the $2.60/MMBtu LDC #1 locked in on August 1. The Company successfully hedged its long-term index price and basis risks even though it paid higher than market price for the natural gas at the time of purchase.

State of Minnesota
Minnesota Department of Commerce

Utility Information Request

Docket Number: G-008/M-23-360 - Hedging Variance/Purchased Gas Adjustment Clause
Date of Request: 8/14/2023
Requested From: CenterPoint Energy Minnesota Gas
Response Due: 8/24/2023

Analyst Requesting Information: Angie Skayer

Type of Inquiry: Other

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
DOC 005	Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy. Topic: PGA Treatment of Costs associated with Financial Instruments Reference(s): Section 5.3, page 8 1. **In spreadsheet format, please provide the actual direct transactional costs, including broker fees, and option premiums for the years 2021 and 2022.** 2. **In spreadsheet format, please provide the forecasted direct transactional costs, including broker fees and option premiums for the years 2023 and 2024.** **Response:** As mentioned in question 1, the Company has not yet utilized financial hedging as part of its portfolio. The Company continues to include this as part of the request so that if the Company decides to enter into financial hedges, the Company has the ability to do so. As of now, the Company does not have any transactional costs from financial hedging.

Response By: Kristal Dipuccio
Title: Manager, Gas Supply
Department: Gas Purchasing, Minnesota
Telephone: 713-207-5965

State of Minnesota
Minnesota Department of Commerce

Utility Information Request

Docket Number: G-008/M-23-360 - Hedging Variance/Purchased Gas Adjustment Clause
Date of Request: 8/14/2023
Requested From: CenterPoint Energy Minnesota Gas
Response Due: 8/24/2023

Analyst Requesting Information: Angie Skayer

Type of Inquiry: Other

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
DOC 003	Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy. Topic Multi-Year Hedging Volumes Reference(s): Page 6 of Petition **In the current Petition, CenterPoint Energy proposes to allow the following:** "Multi-year hedging contracts of up to 60 months duration; with annual limits on volume for years 2024-2025 and 2025-2026 of 20 Bcf; with annual limits on volume for years beyond 2025-2026 of 10 Bcf" **In the prior Petition,G008/M-19-699, CenterPoint's multi-year hedging contracts, of up to 60 months, in duration had annual limits on volume of 13BcF for the years beyond 2024-2025**. **Please provide an explanation for the requested increase to the annual limits on volume from 13 BcF to 20 BcF on the multi-year contracts of up to 60 months duration for the years for the years 2024-2025 and 2025- 2026.** **Response:** For years 2024-2025 and 2025-2026:

Response By: Kristal Dipuccio
Title: Manager, Gas Supply
Department: Gas Purchasing, Minnesota
Telephone: 713-207-5965

CenterPoint Energy proposes to increase the 13 Bcf per year limit to a volume that is not to exceed 20 Bcf per year during the nearest 24 months while the 10 Bcf will be treated as a volume that must be procured. The 20 Bcf will be treated as an allowance and not a mandatory target.

For years 2026-2027, 2027-2028 and 2028-2029:

CenterPoint Energy proposes to decrease the 13 Bcf per year limit to a volume that is not to exceed 10 Bcf. The 10 Bcf will be treated as an allowance and not a mandatory target.

Market liquidity in excess of 24 months in CenterPoint Energy's territory is limited. Forcing transactions to more than 10 Bcf outside of the nearest 24 months in advance of delivery might have a counterproductive effect. Allowing for a greater absolute Bcf limit in the nearest 24 months will enable CenterPoint Energy to make best use of its risk management advisory services and to react to market conditions. The increase in annual limits also supports CenterPoint Energy's main reasoning behind its requested hedging order modifications which is to support year-over-year customer growth.

Response By: Kristal Dipuccio
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State of Minnesota
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Response Due: 8/24/2023

Analyst Requesting Information: Angie Skayer

Type of Inquiry: Other

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Request No.	
DOC 004	Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy. Topic: Annual Hedging Volumes Reference(s): Page 6 of Petition **In CenterPoint Energy's last several Petition's, Docket No's, G008/M- 12-166, G008/M-15-912, G008/M-19-699, the annual and overall hedging volume limits have remained constant. The annual limit on hedging volumes remained at 26 BcF and the overall limit remained at 65 Bcf.** 1. **Please provide a detailed explanation on why CenterPoint is requesting to increase the annual limit on hedging volumes from 26 BcF to 30% of CenterPoint's expected normal winter load requirements.** 2. **Please provide CenterPoint's normal winter load requirements. If CenterPoint anticipates the load requirements to change, please also provide this data.** 3. **Please provide an explanation as to why CenterPoint is requesting an increase to the overall limit on hedging volumes from 65 BcF to 70 BcF.** **Response:**

Response By: Kristal Dipuccio
Title: Manager, Gas Supply
Department: Gas Purchasing, Minnesota
Telephone: 713-207-5965

1. CenterPoint proposes to modify the hedge limit from its current volumetric limit of 26 Bcf to one that is expressed as a percentage of the expected normal load requirements, and to set the percentage limit at 30%. One of the key components of CenterPoint's supply strategy is to procure gas purchases at a stable and reasonable price which is accomplished with storage gas and hedged gas. CenterPoint's customer base is continuously growing year-over-year and placing a volumetric limit on hedged volumes hinders the Company's ability to achieve its desired stabilization rate. Rather basing the annual limit on a percentage gives CenterPoint the flexibility to increase hedged volumes year-over-year as needed to accommodate future customer growth.

2.

Year	Total Requirements	% Change
WS 18-19	114,144,925	
WS 19-20	118,256,440	4%
WS 20-21	122,456,576	4%
WS 21-22	125,756,370	3%
WS 22-23	124,598,231	-1%
WS 23-24	126,004,523	1%

As you can see from the table above, the year-over-year total planned requirements pattern is more often than not increasing. When looking at the change in last 60-months of total planned requirements, there has been an increase of 7.7 Bcf in volume or increase of 7% when comparing WS 23-24 to WS 19-20.

3. Having an aggregate volumetric limit that is expressed as an absolute volumetric number accompanied by limits that are expressed as a percentage of needs is consistent with best practices because it provides an overarching boundary. The aggregate volumetric limit should be consistent with the underlying portfolio procurement structure. Any volumetric increase in the annual limit should be accompanied by an increase in the aggregate limit at least by the same amount.

Response By: Kristal Dipuccio
Title: Manager, Gas Supply
Department: Gas Purchasing, Minnesota
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State of Minnesota
Minnesota Department of Commerce

Utility Information Request

Docket Number: G-008/M-23-360 - Hedging Variance/Purchased Gas Adjustment Clause
Date of Request: 8/31/2023
Requested From: CenterPoint Energy Minnesota Gas
Response Due: 9/11/2023

Analyst Requesting Information: Angie Skayer

Type of Inquiry: Other

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
DOC 007	Each response must be submitted as a text searchable PDF, unless otherwise directed. Please include the docket number, request number, and respondent name and title on the answers. If your response contains Trade Secret data, please include a public copy. Topic: Hedging Volumes RFatepayer Impact Reference(s): Follow-up to response to DOC IR #4 1. In modifying the overall hedge limit from 65Bcf to 70 Bcf, please provide the estimated rate payer impact. 2. In Doc IR #4, the following was provided as an explanation for CenterPoint modifying its hedge limit from 26Bcf to 30% of the Company's normal load requirements. "CenterPoint proposes to modify the hedge limit from its current volumetric limit of 26 Bcf to one that is expressed as a percentage of the expected normal load requirements, and to set the percentage limit at 30%. One of the key components of CenterPoint's supply strategy is to procure gas purchases at a stable and reasonable price which is accomplished with storage gas and hedged gas. CenterPoint's customer base is continuously growing year-over-year and placing a volumetric limit on hedged volumes hinders the Company's ability to achieve its desired stabilization rate. Rather basing the annual limit on a percentage gives CenterPoint the flexibility to increase hedged volumes year-over-year as needed to accommodate future customer growth." Please provide the estimated ratepayer impact resulting from the

Response By: Donald Wynia
Title: Senior Analyst, Regulatory & Rates
Department: Regulatory Portfolio Management MN
Telephone: 612-321-4677

proposed change in annual hedge limits if it will be different from the overall hedge limit impact.

Response:

1. Increasing the hedge limit provides CenterPoint Energy more opportunity to provide price stabilization to our customers. An "estimated payer rate impact" is not possible to predict. The goal is to protect ratepayers from price spikes. Gas is a commodity subject to market pricing; hedging tools provide stabilization. The Company will continue to report on it's annual hedging performance in the Company's annual AAA report.

2. Please see response to 1.

Response By: Donald Wynia
Title: Senior Analyst, Regulatory & Rates
Department: Regulatory Portfolio Management MN
Telephone: 612-321-4677

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

Minnesota Department of Commerce
Comments

Docket No. G008/M-23-360

Dated this **1st** day of **December 2023**

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James J.	Bertrand	james.bertrand@stinson.com	STINSON LLP	50 S 6th St Ste 2600 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_23-360_M-23-360
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_23-360_M-23-360
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Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_23-360_M-23-360
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