MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	**March 7, 2024**		**Agenda Item 2****
Company	CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas		
Docket No.	G-008/M-23-360		
	In the Matter of the 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		
Issues	Should the Commission approve CenterPoint Energy's request to extend its variance to Minnesota Rules to recover the costs of certain natural gas financial instruments through the Purchased Gas Adjustment clause? If an extension is approved, what modifications, if any, should be considered?		
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✓ **Relevant Documents**	**Date**
CenterPoint Energy – Initial Petition	August 1, 2023
Minnesota Department of Commerce - Comments	December 1, 2023
CenterPoint Energy – Reply Comments	December 11, 2023

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I. STATEMENT OF THE ISSUES

Should the Commission approve CenterPoint Energy's request to extend its variance to Minnesota Rules to recover the costs of certain natural gas financial instruments through the Purchased Gas Adjustment clause?

If an extension is approved, what modifications, if any, should be considered?

II. INTRODUCTION AND BACKGROUND

A. Introduction

The natural gas marketplace has always been subject to price swings. Since 1999, as part of their natural gas supply portfolio, Minnesota gas utilities have used hedging instruments. Like physical hedges, financial hedging instruments act as an insurance policy that effectively fix or limit the net price paid for natural gas outside of the physical contract. Financial hedges provide price stability outside the actual natural gas supply contract, even if the supply contract goes above the financial hedge price.

Financial hedging has an associated cost or benefit. In order to allow cost/benefit recovery or flow-back to customers, the Minnesota Public Utilities Commission (Commission) granted natural gas companies a variance to the PGA rules, which permitted the opportunity to recover these "hedging costs" through the company's monthly PGA adjustments.

Minn. R. 7829.3200 indicates a variance may be granted when the following criteria are met:

- Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- Granting the variance would not adversely affect the public interest; and
- Granting the variance would not conflict with standards imposed by law.

In Docket No. G-008/M-01-540,[1] the Commission granted CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy or the Company) approval for its original variance to Minnesota Rules Parts 7825.2400, 7825.2500, and 7825.2700, which allowed cost recovery of financial call options related to swing gas in place of reservation fees through its PGA. Most recently, CenterPoint Energy's request for a variance was granted in Docket No. G-008/M-19-699.[2]

CenterPoint Energy was granted permission to expand its use of hedging tools via a variance to

[1] See order dated June 29, 2001.

[2] See order dated January 13, 2020.

PGA rules in Docket No. G-008/M-04-368.[3] The Commission granted an extension to the variance in March 2009 (Docket No. G-008/M-08-777), which included the authorization to recover through the PGA the cost of forward futures contracts, call options, and put options in combination with call options to form a collar, entered into by June 30, 2012.

The Commission approved similar four-year variance extensions in 2012 (Docket No. G-008/M-12-166), 2016 (Docket No. G-008/M-15-912), and 2020 (Docket No. G-008/M-19-699). The 2020 extension covers transactions entered into on or before June 30, 2024.

If the current Petition is approved by the Commission, the new expiration would be June 30, 2028.

B. Background

On August 1, 2023, CenterPoint Energy submitted a filing (Petition) with the Commission requesting Commission approval of an extension of its variance to Minnesota (Minn.) Rules (R.) Parts 7825.2400, 7825.2500, and 7825.2700 (Purchased Gas Adjustment or PGA rules) to allow for PGA recovery of certain financial instruments to minimize price volatility of natural gas supplies purchased on behalf of Minnesota customers.

On December 1, 2023, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed comments concluding that certain aspects of CenterPoint Energy's petition are reasonable, while others require modification.

On December 11, 2023, CenterPoint Energy filed reply comments reaffirming their original proposal.

III. CENTERPOINT ENERGY'S PETITION

Pursuant to Minnesota Statute §216B.16, subdivision 7, and Minnesota Rule 7829.3200, CenterPoint Energy requested the Commission extend the variance to Minnesota Rules 7825.2400, 7825.2500, and 7825.2700 (the PGA rules) granted by the Commission on January 13, 2020, in Docket No. G-008/M-19-699 to allow recovery of certain financial instruments intended to minimize price volatility of natural gas supplies purchased on behalf of Minnesota customers.

CenterPoint Energy stated that its reasoning for using these financial hedging instruments is based on its desire to make these instruments a part of its broader gas procurement strategy. CenterPoint Energy manages a diversified gas supply portfolio that considers reliability, reduced price volatility and reasonable price. CenterPoint Energy believes such a balanced strategy serves all interests — those of the Company, its customers and regulators.

[3] See order dated November 3, 2004.

In developing its gas supply portfolio, CenterPoint Energy stated it works to lessen ratepayers exposure to severe month-to-month changes in the PGA that would otherwise be experienced if all gas purchased was subject to short-term market influences. CenterPoint Energy further stated while providing gas at a reasonable cost does not imply that the Company will try to "beat the market," its objective is to reduce price volatility while providing protection against prices that greatly exceed normal market levels.

Table 1 shows CenterPoint Energy's analysis for the last three heating seasons and the hedging program's financial effects on ratepayers. The annual costs over/under market due to hedged purchases range from ($1.13) to $1.59 per dekatherm (Dth). The annual costs as a percentage of total costs ranged from (18 percent) to 33 percent and averaged 8 percent over the three-year period.

Table 1: Analysis of Hedged Purchases
Winter Periods November 1, 2020 through March 31, 2023

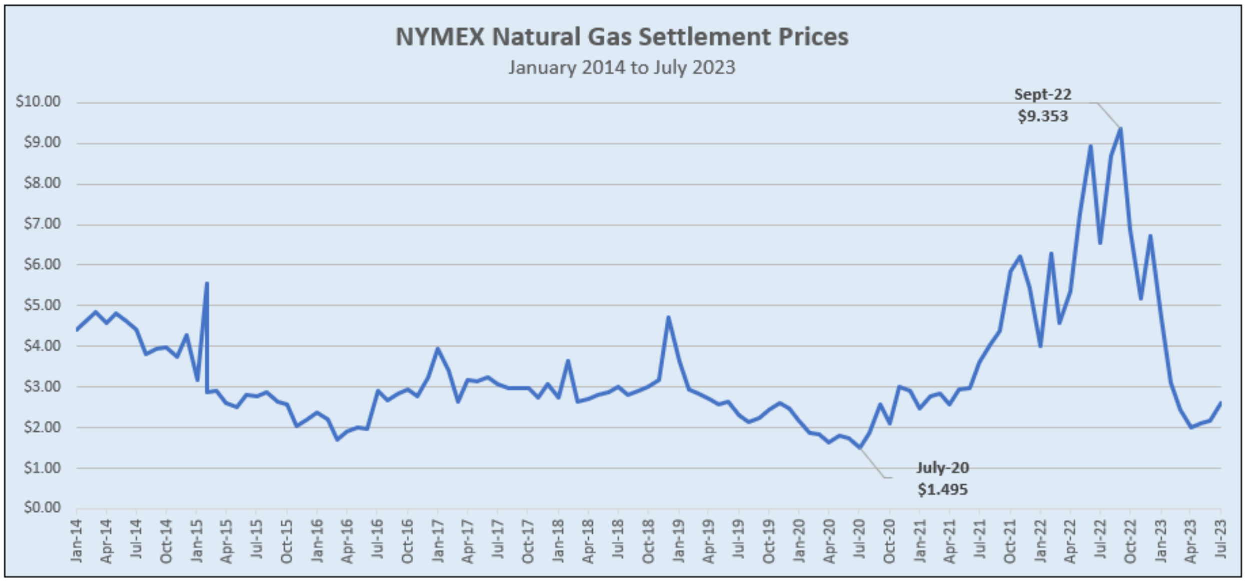
Year	Hedged Volumes	Actual Costs	Cost at Market	Cost (Under)/Over Market	Cost / Dth	Percent (Under)/ Over Market
Winter 20-21	23,051,500	$79,920,898	$60,186,440	$19,734,458	$0.86	33%
Winter 21-22	26,000,070	$130,621,215	$159,888,207	($29,266,993)	($1.13)	-18%
Winter 22-23	26,000,070	$221,706,971	$180,363,345	$41,343,626	$1.59	23%
Totals (AVG)	75,051,640	$432,249,083	$400,437,992	$31,811,091	$0.42	8%

CenterPoint Energy stated its gas procurement strategy is based on a competitive bidding process to secure gas supplies, and its use of published market price indices to establish long-term and daily gas purchase prices, as well as the use of NYMEX gas future price quotes or over-the-counter price quotes all work to accomplish gas supply for the customers that is reasonably priced. While CenterPoint Energy stated that physical hedging and financial hedging yield approximately equivalent results at approximately equal costs, it stated the continued ability to use financial instruments to hedge provides flexibility in timing, and requests that the Commission allow the continued ability to use this tool as well.

Products used may be financial swaps which result in a fixed price, simple calls or collars, or a combination of multiple calls and puts within the same instrument to provide varying levels of protection.

As shown in Graph 1, CenterPoint Energy provided historical data for the last 9 ½ years from the New York Mercantile Exchange (NYMEX) for January 2014 – July 2023 that illustrates the volatile nature of the natural gas market.

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



In its Petition, CenterPoint Energy stated that, due to increased demand for natural gas in the electric power sector, it expected natural gas spot prices to rise in the 3rd quarter of 2023 and again in 2024.[4]

CenterPoint Energy's Petition included the following provisions placing limitations on its hedging program proposal and requested approval of the necessary variances:

1. An annual limit on hedging volume up to 30 percent of CenterPoint Energy's expected normal winter load requirements;
2. An overall limit on hedging volume of 70 Bcf;
3. 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. An annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
5. Variance applies to all financial positions that CenterPoint enters into through June 30, 2028;
6. Reporting required detailed in Section 6 of CenterPoint Energy's filing;[5]
7. Use put options only in combination with a call option to form a collar; and
8. No recovery of interest costs through the PGA.

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[4] CenterPoint Energy cited the U.S. Energy Information Administration, *Short-Term Energy Outlook*, June 2023 report. See Petition at 11-12.

[5] This issue is discussed further in the Accounting and Reporting section in pages 13-14 of these briefing papers.

IV. DISCUSSION OF ISSUES

A. Undisputed provisions

The following four provisions are unchanged from the current Commission approved variance and are uncontested by the Department.

1. An annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas;
2. Variance applies to all financial positions that CenterPoint enters into through June 30, 2028;
3. Use put options only in combination with a call option to form a collar; and
4. No recovery of interest costs thru the PGA.

1. Department of Commerce – Comments

The Department noted that the limitations and restrictions listed above are consistent with those approved in Docket No. G-008/M-19-699. The Department noted the Company's response to Department Information Request No. 5 stated CenterPoint Energy had not incurred any option premiums to date given the Company has not utilized financial hedging as part of its portfolio.[6] Thus, the Department noted that, to date, the annual limit on net option premiums of $6.5 million has been only a theoretical limit.

The Department concluded these provisions continue to be relevant and that the $6.5 million limit on net 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 recommended approval of the four items.

B. Disputed provisions

As discussed below, the Department noted that CenterPoint Energy proposed changes to three of the limits approved in Docket No. G-008/M-19-699.[7]

1. Revise Annual limit on hedging volume from 26 Bcf to 30 percent of CenterPoint Energy's expected normal winter load requirements

CenterPoint Energy proposed to modify its current Commission approved annual volume hedging limit from 26 Bcf to 30 percent of the Company's expected normal winter load requirements. This proposal modifies CenterPoint Energy's methodology from an absolute limitation of 26 Bcf to one that varies with expected load requirements.

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[6] Department Comments at Attachment C.

[7] Department Comments at Attachment A.

a. Department of Commerce – Comments

The Department noted that CenterPoint Energy's hedging parameters have been in place since 2008 with the Commission's Order in Docket No. G-008/M-08-777.[8] To assist in determining the reasonableness of the Company's request, the Department issued an information request, to which the Company responded:

> 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.[9]

The Department calculated that, since the 2018-2019 winter season, the Company has forecasted an 11 percent growth in annual heating season total requirements while the hedging limit on the amount of gas hedged has remained constant. The Department noted that, because of the growth in annual total requirements, the percentage of the volumes hedged compared to the forecasted Total Requirements has declined from 23 percent to 21 percent.

Additionally, the Department noted that CenterPoint Energy provided a table showing its total planned requirements for the last five years and the upcoming winter 2023-2024 and created a table (reproduced below) comparing CenterPoint Energy's approved and proposed hedging amounts.

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[8] Order dated March 6, 2009.

[9] Department Comments at 14.

Table 2: CenterPoint's Current and Proposed Annual Baseload Hedging Limits (Bcf/Winter Heating Season)[10]

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
2019-2020	118	4%	26	22%	35	9
2020-2021	122	3%	26	21%	37	11
2021-2022	126	3%	26	21%	38	12
2022-2023	125	-1%	26	21%	38	12
2023-2024	126	1%	26	21%	38	12
Total Change	12	11%				

Based on the information provided, the Department determined that CenterPoint Energy included volumes associated with third-party transport in its calculation and noted that CenterPoint Energy is not responsible for sourcing the natural gas that it transports for third parties on its distribution system.[11] To that end, the Department determined that it is more appropriate to use Total System Purchases instead of Total System Supply as the basis for calculating the percentage of baseload requirements hedges for the winter season.

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. 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 3 compares the difference between the current and proposed annual limits using Total System Purchases.

[10] Department Comments at 15.

[11] The Department noted that CenterPoint Energy staff agreed with this statement in a November 13, 2023, meeting.

Table 3: Department's Estimate of CenterPoint's Current and Proposed Annual Baseload Hedging Limits Using Total System Purchases (Bcf per Winter Heating Season)[12]

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%				

Additionally, the Department sent an information request to CenterPoint Energy requesting the results of any cost/benefit analysis that identified estimated ratepayer impact of the Company's requested change of annual hedging volume limit from 26 Bcf to 30 percent of expected normal winter load requirements. CenterPoint Energy responded:

> 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.[13]

In response, the Department recognized the primary goal of hedging is to lessen the ratepayer effects of significant and sustained price increases in the natural gas markets. Additionally, the Department acknowledged that adjustments must be made over time to account for volumetric need as customers and requirements increase. However, the Department stated that it 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.[14]

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[12] Department Comments at 16.

[13] CenterPoint Energy's response to Department Information Request #7 is found in Attachment F of the Department's Comments.

[14] The Department provided calculations that if the 30 percent limit in the annual hedged volumes had been in effect, ratepayers would have paid an average increased 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.

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 recommended denial of the Company's proposed 30 percent limit. Instead, the Department recommended that CenterPoint Energy's proposed annual limit of Hedged Baseload gas be set to 25 percent of the Company's Total System Purchases.

The Department argued that its proposed 25 percent limit would:

1. 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.
2. Be consistent with current CenterPoint Energy practice of hedging approximately 25 percent of the Total Requirements via Baseload Hedged contracts.
3. Not increase the hedging program's annual costs to ratepayers.

The table below provides a comparison of CenterPoint Energy's current and the Department's proposed recommendation of 25 percent annual hedging limits.

Table 4: Comparison of CenterPoint Energy's Current and Department Proposed Annual Baseload Hedging Limits

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	6%	2			

b. CenterPoint Energy – Reply Comments

CenterPoint Energy acknowledged that it did not provide any quantitative support for the proposed increase. Specifically, CenterPoint Energy stated:

> The Department is correct when they state that the Company provided no quantitative support for the proposed increase. There is no quantitative support to show that the Company would have better price stabilization with 25%, 30% or no hedging ability at all as well as which hedging level would result in lower prices. The market changes daily, and the Company uses its hedging practices to help stabilize a portion of its portfolio from catastrophic

> increases. These requests will allow the Company to have adequate hedges in place to target our desired 50% of normal winter usage price stabilization.
>
> For example, in 2022 the Company hedged some of its portfolio at approximately $5 during a time when gas prices were volatile and $5 was on the lower end of current market prices. One year later gas prices were down in the $2 range. Without knowing the future, this was a prudent decision in 2022 as prices continued to fluctuate. In this example, if the market would have continued to go up, we would have been capped at the $5 price for the amount of hedged gas that was purchased.
>
> The Company locks in customer prices based on the current market conditions at the time of execution in an effort to help stabilize customer prices in an unpredictable gas market. The Company is focused on stabilization and not always beating the market, in order to limit the risk for customers and still gives the Company the ability to provide stabilized pricing.[15]

2. Increase of overall limit on hedging volume from 65 Bcf to 70 Bcf

a. Department of Commerce – Comments

The Department noted that the 65 Bcf multi-year hedging volume limit was first proposed and approved in Docket No. G-008/M-08-777.[16] As shown in Table 5, the Department provided examples showing how the 65 Bcf limit could work.

The table's first row 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 added to its existing hedged positions for each heating season. For example, for the 2009/2010 heating season, it added 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 timepassed, it continued to layer on hedged purchases. In this example, the 65 Bcf limit is reached in only one year - proposed year 1.

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15 CenterPoint Energy Reply Comments at 2.

16 Order dated March 6, 2009.

Table 5: Example of How the 65 Bcf Multi-Year Hedging Limit Might Work[17] (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

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

b. CenterPoint Energy Reply Comments

CenterPoint Energy did not specifically respond to the Department recommendation but rather made a general statement that it "reaffirms it preference for the Company's proposal in the original petition."[18] CenterPoint Energy noted that it may be willing to accept the Department's recommendation if the Department clarified its position regarding its opposition to allowing a minimum 10 Bcf purchase volume for 2024-2025 and 2025-2026, discussed below. Staff notes that the Department did not file Response Comments in this proceeding so the Commission, at the March 7, 2024, agenda meeting, may wish to invite the Department to confirm its position on this issue.

3. Continuation of the multi-year hedging contract duration for 60 months with certain annual limits

The use of multi-year hedging contracts of up to 60 months in duration has been approved by the Commission in the past and most recently in Docket No. G-008/M-19-699[19]. CenterPoint Energy proposed to change the annual volume limits to increase the allowable limit for 2024-2025 and 2025-2026 heating seasons from 13 Bcf to 20 Bcf and instituting a 10 Bcf minimum procurement about.[20] For years 2026-2027, 2027-2028, and 2028-2029, CenterPoint Energy proposed to decrease the existing 13 Bcf volume limit to 10 Bcf which would be treated as an

[17] Department Comments at 11.

[18] CenterPoint Energy Reply Comments at 2.

[19] See Order dated January 13, 2020.

[20] CenterPoint Energy stated that the 20 Bcf would be treated as an allowance and not a mandatory target.

allowance and not a mandatory target.[21]

a. Department of Commerce – Comments

The Department's expressed concern regarding the creation of a 10 Bcf minimum procurement threshold for the 2024-2025 and 2025-2026 heating seasons. The Department noted that it raised these concerns with CenterPoint Energy staff during a conference call on November 13, 2023, especially since the Company has used multi-year contracts very sparingly in recent years, and in amounts less than 10 Bcf, the Department stated that it remained unclear as to why it would be reasonable to increase the use at this time.

The Department concluded that CenterPoint Energy has not provided any support for its recommendation to institute a minimum volume procurement of 10 Bcf for heating seasons 2024-2025 and 2025-2026. Therefore, Department recommended the following:

- Approval of 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 volumes for years beyond the 24-month limit of 10 Bcf.
- Denial of the Company's proposal to institute a minimum procurement amount of 10 Bcf for heating seasons 2024-2025 and 2025-2026.

b. CenterPoint Energy Reply Comments

In its Reply Comments, CenterPoint Energy stated that it could accept the Department's proposal with a clarification of the Department's recommendation regarding their opposition to a 10 Bcf minimum volume for 2024-2025 and 2025-2026 and their approval of the use of 10 Bcf allowance for 2026-2027, 2027-2028, and 2028-2029. Staff notes that the Department did not file Response Comments in this proceeding so the Commission, at the March 7, 2024 agenda meeting, may wish to invite the Department to confirm its position.

C. New Reporting Requirement

In its Comments, the Department recommended the addition of a new reporting requirement:

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

The Department noted that, during a conference call on November 13, 2023, CenterPoint

[21] Department Comments Attachment D includes CenterPoint Energy's response to Department Information Request #3.

Energy staff agreed that the proposed additional reporting requirement is appropriate.[22]

D. Accounting and Reporting

1. Accounting Requirements

In its Petition, the Company stated that it did not propose any changes to the accounting for its financial hedging instruments. Rather, CenterPoint Energy proposed 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) maintain 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 Energy also proposed to maintain the same reporting requirements as approved by the Commission in the last hedging variance request.[23] The Department concluded that the proposed accounting and reporting requirements are reasonable and recommended that the Commission incorporate these requirements into its order in this matter.

2. Regulatory Reporting Requirements[24]

Similar to previous Commission orders, CenterPoint Energy proposed to continue:

- Include information concerning the purchase of financial instruments in its annual Request for Demand Units Filing submitted on approximately November 1 of each year. In its annual Demand Units Filing, CenterPoint Energy describes the changes to its current supply portfolio necessary to meet firm requirements for the upcoming heating season. The Company agreed to include a list of all financial instrument arrangements entered into for the upcoming heating season, including all relevant terms for each contract: the cost associated with the contract (premium), the size of the contract (in Dth/day), the date the contract was entered into, the price assigned to the contract, and an explanation of the benefits of these activities to the Company's ratepayers;
- Include in its AAA reports (to be filed September 1 each year) data on the specifics of any price hedging contracts, including a list of each hedging instrument entered into, the total Dekatherms contracted for, for each instrument and the net gain or loss, including all transaction costs.
- Include in its monthly PGA filings a schedule separately identifying those financial instrument costs included in the calculation of the demand cost recovery rate for the month.
- Include a copy of its hedging plan each year once the plan has been approved for use by Company management in this docket.

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[22] Department Comments at 9-10.

[23] CenterPoint Energy Petition at 9.

[24] *Id*.

The Department reviewed these requirements and recommended Commission approval.

E. Criteria for Granting a Variance to a Minnesota Rule

Minnesota Rule 7829.3200 outlines three conditions that must be met for the Commission to grant a variance to Minnesota Rules.

The conditions necessary for a variance under Minnesota Rules, Part 7829.3200 are as follows:

1. Enforcement of the rules would impose an excessive burden upon the applicant or others affected by the rules.

The Department stated that enforcement of the PGA rules may preclude CenterPoint Energy from taking advantage of the existing financial instruments in the wholesale natural gas markets. Without a continued variance, CenterPoint Energy would not use additional tools (e.g., futures, options, collars) available to help mitigate price volatility. As such, the Department concluded that enforcement of the rules may impose an excessive burden upon CenterPoint Energy's ratepayers;

2. Granting the variance would not adversely affect the public interest.

The Department has previously concluded that granting the variance would not adversely affect the public interest. Additionally, there is nothing in CenterPoint Energy's proposal that would preclude the Commission from exercising its authority to disallow the cost of imprudent or unreasonable transactions. If, in the future, the Commission concludes that CenterPoint Energy acted in an unreasonable manner, it could rule that certain costs were imprudent and should not be recovered from ratepayers. As such, the public interest is fully protected; and

3. Granting the variance would not conflict with standards imposed by law.

The Department noted that the Commission has already allowed a variance to what is being proposed in this docket. As such, the variance is consistent with the purpose of the PGA statute and rules and does not conflict with any other laws.

The Department concluded that CenterPoint Energy's petition met the required conditions for granting a variance reflected in Minnesota Rule 7829.3200. Staff agrees with the Department's conclusion.

F. Staff Analysis

As previously stated by CenterPoint Energy and the Department, the goal of hedging is not necessarily to "beat the market" when purchasing gas supplies, but rather to provide price stability to ratepayers during periods of wild price swings. Staff agrees with the Department that hedging losses are not necessarily a detriment to the customer. The main purpose of the hedge is to provide an insurance against "catastrophic" price increases that effect natural gas customer rates. As CenterPoint Energy's provided data illustrates, the overall cost increase of historical hedging practices has had an impact on the ultimate rate paid by the Company's ratepayers, while the hedging practices have been providing insurance against wild price increases that might occur.

However, Staff is concerned with the interaction between the annual 26 Bcf limit and the five-year 65 Bcf aggregate limit. The issue is that the 26 Bcf annual limit makes it mathematically impossible for the Company to maximize the five-year 65 Bcf limit.

As noted above, the current hedging parameters have been in place since 2008 with the Commission's Order in Docket No. G-008/M-08-777.[25] In that proceeding the Company proposed to hedge up to 65 Bcf of its gas supplies and requested permission to extend the duration of some contracts to 60 months. When the Department expressed reservations with the proposal the Company responded in its reply comments as follows:

> A 26 Bcf annual cap over a five year period would allow hedged volumes of up to 130 Bcf (26 Bcf x 5 years). However, the Company's proposal would limit the total outstanding hedges to just 65 Bcf, or about half of the previously granted request over a longer time frame. The increase in the cap to 65 Bcf does not expose the rate payers to any additional risk because CenterPoint Energy is still limited to 26 Bcf in any one year.

The Commission in its order established the existing framework of 26 Bcf annual hedging limit with a maximum of 65 Bcf over 60 months.

As discussed above, the Department was critical of CenterPoint Energy's failure to reach the five-year 65 Bcf limit and, in part, used Table 6 (a reproduction of Table 5 above) to illustrate this point.

Table 6: Example of How the 65 Bcf Multi-Year Hedging Limit Might Work (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

[25] Order dated March 6, 2009.

Despite Table 6 showing an annual maximization of the 26 Bcf, the table shows the 65 Bcf is only reached over the first five-year cycle (Proposed Year 1). For Proposed Years 2-5, there is no possible combination of hedge purchases that could have resulted in the 65 Bcf being achieved. Furthermore, Table 6 shows that for the first three years of Proposed Year 5, aggregate hedges total 4 Bcf. This means that, as shown in Table 7, even if CenterPoint's 2015-2016 and 2016-2017 hedges were to be maximized, the 5-year maximum for Proposed Years 4 and 5 could have, respectively, only been 50 and 30 Bcf.

Table 7 also adds what Proposed Years 6 and 7 could look like.

Table 7: Expanded Example of How the 65 Bcf Multi-Year Hedging Limit Might Work (Bcf/yr.)

Description	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Sum of 5 Years
Proposed Year 1	26	10	10	10	9							65
Proposed Year 2		16	7	7	7	7						44
Proposed Year 3			9	9	9	9	9					45
Proposed Year 4				0	1	10	13	**26**				50
Proposed Year 5					0	0	4	0	**26**			30
Proposed Year 6						0	0	0	0	**26**		26
Proposed Year 7							0	0	0	0	**26**	26
Total by Year	26	26	26	26	26	26	26	26	26	26	26	286

Table 7 shows that, starting in 2017-2018 (Proposed Year 6) and for every season thereafter, the only way for CenterPoint Energy to maximize future hedges would be to buy 26 Bcf on the fifth (and final) year of each Proposed Year. Thus, under the current construct, the 65 Bcf limit not only effectively becomes a 26 Bcf limit, but an increase from 65 Bcf to any other amount becomes irrelevant.

As stated above, Staff noted that hedges are essentially an "insurance instrument" against catastrophic spikes in the natural gas marketplace (such as those experienced during Winter Storm Uri). Staff believes that an effective hedging program requires flexibility to vary annual purchases and, as Staff has shown, the current construct results in what effectively is a 26 Bcf annual limit.

In light of this information, if the Commission feels that the hedge construct "as is" does not accomplish the flexibility the Commission seeks, then Staff recommends the elimination of the 65 Bcf multi-year hedging limit.

Since neither CenterPoint Energy nor the Department have had an opportunity to comment on Staff's recommendation, the Commission may want to allow them the ability to address the issue at the March 7, 2024 agenda meeting.

V. DECISION OPTIONS

Undisputed Issues

1. Determine CenterPoint Energy's variance petition complies with the requirements set forth in Minnesota Rules 7829.3200. (Department, CenterPoint Energy)

2. Extend CenterPoint Energy's variance to Minnesota Rules parts 7825.2400, 7825.2500, 7825.2700 for a four-year period beginning July 1, 2024 through June 30, 2028. (Department, CenterPoint Energy)

3. Allow the variance to apply to all Commission-approved financial positions that CenterPoint Energy enters into through June 30, 2028. (Department, CenterPoint Energy)

4. 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. (Department, CenterPoint Energy)

5. Maintain the existing annual limit on net option premiums of $6.5 million, excluding premiums or reservation fees paid for daily call gas. (Department, CenterPoint Energy)

6. Allow the use of put options only in combination with a call option to form a collar. (Department, CenterPoint Energy)

7. Deny recovery of interest costs through the PGA. (Department, CenterPoint Energy)

8. Require CenterPoint Energy to report data and follow the reporting requirements as detailed in Section 6.2 Proposed Regulatory Reporting of CenterPoint Energy's Petition. (Department, CenterPoint Energy)

9. Require CenterPoint Energy to include, in future PGA variance requests, a ratepayer benefit analysis like that shown in Section 7.3 Ratepayer Benefit Analysis of CenterPoint Energy's Petition. (Department, CenterPoint Energy)

10. Require CenterPoint Energy 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. (Department, CenterPoint Energy)

Disputed Issues

Overall Multi-Year Limits

11. Maintain overall limit on hedging volume at 65 Bcf over a 60-month period. (Department)

Or

12. Set a limit on hedging volume of 70 Bcf over a 60-month period. (CenterPoint Energy)

Or

13. Eliminate the multi-year hedging limit of 65 Bcf. (Staff)

Annual Limits

14. Change the annual limit on Baseload Hedging contract volume from 26 Bcf to 25 percent of CenterPoint Energy's forecasted Total System Purchases for the subsequent winter heating season. (Department)

Or

15. Set an annual limit on hedging volume up to 30 percent of CenterPoint Energy's expected normal winter load requirements. (CenterPoint Energy)

Minimum limits

16. Deny CenterPoint Energy's request that 10 Bcf of hedging for 2024-2025 and 2025-2026 heating seasons be classified as a minimum. (Department)

Or

17. Approve CenterPoint Energy's request that 10 Bcf of hedging for 2024-2025 and 2025-2026 heating seasons be classified as a minimum. (CenterPoint Energy)

New Reporting Requirement

18. Require CenterPoint Energy 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 Energy purchased on its Minnesota customers behalf as part of the hedging program. (Department, CenterPoint Energy)