BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

In the Matter of CenterPoint Energy's 2013 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

ISSUE DATE: December 17, 2014

DOCKET NO. G-008/M-14-368

ORDER APPROVING TRACKER ACCOUNT, APPROVING FINANCIAL INCENTIVE, SETTING CONSERVATION COST RECOVERY ADJUSTMENT, AND REDUCING CARRYING CHARGES

PROCEDURAL HISTORY

On May 1, 2014, CenterPoint Energy filed its annual petition for rate recovery of costs incurred and financial incentives earned for its Conservation Improvement Program (CIP) activities during the previous calendar year. The petition asked the Commission to take the following actions:

1. Approve its CIP tracker account, the account used to track costs incurred, incentives earned, and amounts recovered in rates in connection with the Company's CIP activities.

2. Authorize the Company to book to the tracker account some $10,890,131 in demand-side-management financial incentives—cash rewards for achieving energy savings at specified levels—earned during 2013 under the financial incentive mechanism adopted by the Commission.[1]

3. Authorize the Company to increase its Conservation Cost Recovery Adjustment (CCRA), the monthly billing surcharge used to recover amounts booked to the CIP tracker account, from $0.00659 per therm to $0.00884 per therm.

In July and August 2014, the Minnesota Department of Commerce examined the filing, exchanged comments and information with the Company, and ultimately recommended approving the tracker account, the proposed financial incentive, the proposed CCRA, and the proposed customer notice, updated to reflect the date of Commission action.

[1] *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation Pursuant to Minn. Stat. § 216B.241, subd. 2c*, Docket No. E,G-999/CI-08-133, Order Establishing Utility Performance Incentives for Energy Conservation (January 27, 2010) and Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentive (December 20, 2012).

The Department also recommended ending the practice of permitting carrying charges on the Company's CIP tracker account balance. In the alternative, the Department recommended disallowing carrying charges on the portion of the CIP tracker balance representing financial incentives. The Company opposed eliminating carrying charges.

The case came before the Commission on October 30, 2014.

FINDINGS AND CONCLUSIONS

I. Tracker Account, CCRA

The Department examined the Company's filing and reported that it had properly calculated and accounted for its CIP expenses, demand-side management financial incentive, previously authorized carrying charges, 2013 rate recoveries, and beginning and ending CIP balances, as set forth below:

Table 1: Summary of CenterPoint's CIP Tracker Account in 2013

Description	Time Period	Amount
Beginning Balance	December 31, 2012	$ 14,225,552
CIP Expenses	January 1 through December 31, 2013	$23,222,379
2012 DSM Financial Incentive	Approved in December 2013	$3,207,411
Carrying Charges	January 1 through December 31, 2013	$344,598
Unrecovered CCRA due to billing dates	January 1 through December 31, 2013	$279,687
Recovery via Base Rates	January 1 through December 31, 2013	($9,581,055)
Interim Recovery Rate	October 1 through December 31, 2013	($4,269,471)
Recovery via CCRA	January 1 through December 31, 2013	($18,928,037)
Ending Balance	December 31, 2013	$8,501,064

The Commission has examined the record, concurs with the Department that these calculations are correct, and will approve them.

The Commission also concurs with the Company and the Department that the CCRA, the automatic rate adjustment for the recovery of CIP costs, should be set in the same manner as the CCRA proposed in the Company's petition and subsequent comments. That number will have to be recalculated, however, because it includes carrying charges at the Company's overall rate of return, and in this order the Commission reduces carrying charges to the authorized cost of short-term debt.

II. Carrying Charges

CenterPoint includes in its CIP tracker account carrying charges calculated at its authorized overall rate of return. As explained below, the Commission concludes that this interest rate is excessive under current conditions and should be replaced by the Company's authorized cost of short-term debt.

First, the Commission declines to adopt the Department's proposal to eliminate all carrying charges. The Department takes this position in part because the tracker account includes financial incentives, cash bonuses awarded to utilities for meeting or exceeding conservation and energy-efficiency goals set by the Department and approved by the Commission. Since these amounts do not represent out-of-pocket costs, the Department does not recommend permitting carrying charges on under-recovered or over-recovered amounts.

Given the facts before it, the Commission disagrees. While financial incentives are not out-of-pocket costs, they are duly earned in a performance-based regulatory initiative established by the Commission and approved by the Legislature.[2] They are calculated under a formula adopted by the Commission after lengthy record development and extensive stakeholder participation.[3] Utilities properly factor these incentives into their decision-making processes, and perceived reductions in their value when rate recovery is delayed carry public-interest implications. The Commission is therefore concerned both about treating utilities fairly and about maintaining the effectiveness of the financial incentives program.

Moreover, financial incentives are only one component of CIP costs. Most CIP costs *are* out-of-pocket costs, and refusing to hold utilities harmless for these costs could influence the timing of CIP expenditures, to the detriment of the conservation and energy-efficiency programs they support. Both equitable and public-policy considerations therefore support reasonable carrying charges on CIP tracker balances.

The issue, then, is what interest rate is most reasonable in this factual context. While there were sound reasons for granting favorable interest treatment of CIP costs when the program was new—to ensure full cost recovery when the operational impact of the tracker account was unclear and to minimize utilities' disincentives to implement a new program that would reduce sales—these reasons no longer apply with equal force. CIP is now a mature program and a central part of the regulatory landscape. At this point it is reasonable to adopt a more moderate interest rate.

There is no exact match, however, between any standard interest rate and the varying periods over which CIP costs might be carried in the tracker account. The closest match would appear to be the utility's cost of short-term debt. The twelve-month term typical of short-term debt corresponds to the twelve-month period for which CCRAs are set, normally at levels calculated to zero out the CIP tracker account over twelve months. The Commission will therefore direct the Company to prospectively reduce carrying charges on its CIP tracker account to the authorized cost of short-term debt set in its last rate case.[4]

III. Customer Notice and Compliance

To ensure accuracy, the Company will be required to make a compliance filing within ten days of this order. That filing must include new CCRA tariff sheets and the calculations supporting the final numbers in the tariff.

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[2] *In the Matter of Commission Review of Utility Performance Incentives for Energy Conservation Pursuant to Minn. Stat. § 216B.241, subd. 2c,* Docket No. E,G-999/CI-08-133, Order Establishing Utility Performance Incentives for Energy Conservation (January 27, 2010) and Order Adopting Modifications to Shared Savings Demand Side Management Financial Incentive (December 20, 2012); Minn. Stat. § 216B.16, subd. 6c.

[3] Id.

[4] *In the Matter of an Application by CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-13-316.

Finally, the Commission will approve the proposed customer notice submitted by the Company, subject to updating to reflect the decisions made herein.

ORDER

1. The Commission approves the Company's 2013 tracker account as set forth on page five of the July 16, 2014 comments of the Department of Commerce.

2. The Commission approves the Company's financial incentive of $10,890,131 for its 2013 CIP achievements.

3. The Commission approves the manner in which the Company calculated the CCRA proposed in its petition. Within ten days of the date of this order, the Company shall make a compliance filing proposing a revised CCRA, calculated in the same manner but reflecting the decisions made in this order. In the absence of an objection, the revised CCRA shall take effect in the month following the date of this order.

4. The Commission approves the Company's proposed bill message with modifications to reflect the effective date and CCRA rate approved herein.

5. The Commission modifies the carrying charge on the CIP tracker-account balance to the short-term cost of debt set in the Company's last electric rate case, G-008/GR-13-316. This change shall become effective in the month following the date of this order.

6. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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