Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 25, 2016 .... **Agenda Item **# 5**

Company: CenterPoint Energy (CPE, the Company)

Docket No. **G-008/M-16-366**

In the Matter of Center Point Energy's 2015 Demand Side Management Financial Incentives and Annual Filing to Update the CIP Rider

Issue(s):

1. Should the Commission approve an incentive of $12,732,019 for CPE's 2015 CIP achievements?

2. Should the Commission approve CPE's 2015 CIP tracker account with a balance of $2,932,026 as of December 31, 2015?

3. How should the carrying charge be calculated and what short-term cost of debt should be applied?

4. Should the Commission approve CPE's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CCRA Factor as determined by the Commission?

5. At what level should the Commission set the conservation cost recovery adjustment (CCRA) beginning January 1, 2017?

Staff: Marc Fournier 651-201-2214

Relevant Documents

Commission Order Approving Tracker Account,
Approving Financial Incentive, Setting Conservation
Cost Recovery Adjustment, and Reducing Carrying Charges
Docket No. G-008/M-14-368... December 17, 2014

Initial Filing CenterPoint .... April 29, 2016

Comments of the Department of Commerce,
Division of Energy Resources (DOC) .... June 28, 2016

Reply Comments CenterPoint.. July 11, 2016

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

I. Statement of the Issue(s)

1. Should the Commission approve an incentive of $12,732,019 for CPE's 2015 CIP achievements?

2. Should the Commission approve CPE's 2015 CIP tracker account with a balance of $2,932,026 as of December 31, 2015?

3. How should the carrying charge be calculated and what short-term cost of debt should be applied?

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Minn. Stat. § 216B.16, subd. 6c.

> **Incentive plan for energy conservation improvement.** (a) The commission may order public utilities to develop and submit for commission approval incentive plans that describe the method of recovery and accounting for utility conservation expenditures and savings. In developing the incentive plans the commission shall ensure the effective involvement of interested parties.
>
> (b) In approving incentive plans, the commission shall consider:
>
> (1) whether the plan is likely to increase utility investment in cost-effective energy conservation;
>
> (2) whether the plan is compatible with the interest of utility ratepayers and other interested parties;
>
> (3) whether the plan links the incentive to the utility's performance in achieving cost-effective conservation; and
>
> (4) whether the plan is in conflict with other provisions of this chapter.
>
> (c) The commission may set rates to encourage the vigorous and effective implementation of utility conservation programs. The commission may:

(1) increase or decrease any otherwise allowed rate of return on net investment based upon the utility's skill, efforts, and success in conserving energy;

(2) share between ratepayers and utilities the net savings resulting from energy conservation programs to the extent justified by the utility's skill, efforts, and success in conserving energy; and

(3) adopt any mechanism that satisfies the criteria of this subdivision, such that implementation of cost-effective conservation is a preferred resource choice for the public utility considering the impact of conservation on earnings of the public utility.

The Conservation Improvement Project Rider was submitted in accordance with the Miscellaneous Tariff rules.

II. Background

On April 29, 2016, CenterPoint Energy (CPE or the Company) filed a petition requesting approval of its 2015 natural gas CIP (Conservation Improvement Program) Tracker Account, Financial Incentive on 2015 Performance of $12,732,019, and a proposed 2016/2017 Gas Conservation Cost Recovery Adjustment (CCRA). The Petition includes a report of proposed recoveries and expenditures in CPE's gas CIP tracker account during 2015, a proposed change in the currently approved gas CCRA, and a proposed incentive for its 2015 CIP achievements.

Comments were filed by the Minnesota Department of Commerce (DOC) on June 28, 2016.

On July 11, 2016, reply comments were filed by CPE Energy. The DOC filed reply comments on August XX, 2016.

Below are the DSM financial incentives 2009 to 2015 for the Minnesota gas utilities filing for DSM incentives:

DSM Financial Incentives 2009-2015

	2009	2010	2011	2012	2013	2014	2015
Xcel	$965,307	$2,264,511	$2,833,206	$2,682,879	$5,416,936	$5,841,671	$5,763,443
Center Point Energy	$1,394,200	$3,933,921	$4,590,392	$3,207,411	$10,890,131	$11,608,486	$12,732,019
Great Plains	$0	$18,915	$37,707	$114,763	$24,137	$42,180	$477,077*
Interstate Power	$86,463	$85,716	$15,349	$20,097	$37,207	$76,476	N/A
Minnesota Energy Resources Corp.	$582,288	$2,292,375	$2,587,948	$2,729,531	$2,093,158	$2,492,730	$3,392,001*

III. Parties' Positions

CPE: With respect to the CCRA request, the Company received approval of a 2016 budget that includes an extraordinarily large custom rebate project. The project has a sizable impact on the Company's 2016 CIP energy savings goals and budget. Due to the high energy savings goal associated with this project, the Company also anticipates a one-time spike in the corresponding DSM financial incentive and thus in recoverable CIP expenses in the year that the associated financial incentive is booked – forecasted for 2017. As a result, an increase in the CCRA rate is needed to recover those expenses. Because the increase in CIP expenses is expected to be a one-time event, the Company proposed implementing a CCRA rate in 2017 that is forecasted to amortize recovery of the CIP Tracker Account over the course of two years. Amortizing recovery over two years would avoid a sharp spike in rates for one year (2017), followed by a sharp decrease the following year, which would occur if the CIP Tracker Account were recovered fully in 2017. The Company prefers the two-year amortization approach over recovering the full CIP Tracker balance in one year because it avoids dramatic fluctuations in the conservation recovery rate from year to year. Such fluctuations can result in higher customer dissatisfaction and increased customer confusion.

The DOC recommends that the Commission approve a CCRA rate that will fully recover the Company's CIP Tracker balance in 2017, citing the goals of "recovering charges as close to the incurred date as possible" to ensure that current ratepayers bear current costs and "minimizing customer carrying costs."

First, the Company believes that recovering the CIP Tracker Account balance fully over two years will result in minimal risk of new customers bearing a significant portion of CIP expenses incurred in the previous year. The Company typically adds approximately one percent in new customers annually. Therefore, fully recovering the CIP Tracker balance in 2017 might relieve a small number of new customers in 2018 from paying toward the previous year's CIP expenses, but would result in an avoidable one-time spike in rates for the vast majority of the Company's customers in 2017. Further, the oscillating nature of the DOC's recommendation could result in significant customer dissatisfaction and potential confusion as rates would increase in 2017, only to drop again in 2018.

In general, the Company agrees with the DOC's stated goal of "recovering charges as close to the incurred date as possible." However, compared to the Company's proposal to recover costs over two years, the DOC's recommended approach would not recover charges closer to when they were incurred. Instead, the DOC's recommended approach results in early recovery of expenses in order to off-set the spike in CIP expenses that is forecasted to occur in the fourth quarter of 2017. Due to the cyclical nature of CIP expenses, which typically peak in the last few months of the calendar year, it is common for the Company's CIP Tracker Account to over-recover in the first part of the year in order to off-set fourth quarter expenses. However, the DOC's recommended 2017 CCRA results in far higher over-recovery of conservation costs for the majority of 2017 than the Company's requested approach. As shown in the graph on page three of CenterPoints reply comments, the DOC's recommended 2017 CCRA (forecasted in red page 3 of CenterPoint reply comments) over-recovers CIP expenses through November to a greater degree than the Company's requested 2017 CCRA (forecasted in blue page 3 of CenterPoint reply comments). In other words, the DOC's recommended CCRA would have the Company collect conservation costs earlier and hold on to larger amounts of ratepayer dollars than the Company's requested approach.

Finally, the Company challenges the DOC's assertion that their recommended CCRA rate would minimize carrying charges. It is important to remember that carrying charges in the CIP Tracker Account are calculated monthly and not solely on the year-end balance. Carrying costs can be both due from and payable to customers – carrying charges are due from customers when the Company has not fully recovered the CIP costs and carrying charges are payable to customers when the company has recovered from customers before the CIP costs are incurred. Because the Company's requested CCRA rate recovers costs more closely to the date that costs are incurred, it results in carrying charges that are less in absolute value than DOC Staff's recommendation. The DOC's recommendation results in a projected total of -$237,828 in carrying charges over the two years (2017 and 2018), while the Company's requested CCRA rate results in a projected total of -$173,653 over the same two-year period.

Therefore, the Company respectfully requests that the Commission approve its initial 2017 CCRA request of $0.01553 per therm, which reflects a two-year amortization approach of recovering the CIP Tracker balance. This CCRA amount will maintain more consistent and stable conservation recovery rates over the next two years; it will result in timely recovery of conservation costs; and it will result in lower carrying charges than would a one-year recovery.

Tracker Account Carrying Charge

Due to the specific language of the Commission's December 17, 2014 Order, the Company did not update the short-term cost of debt rate to calculate carrying charges on the CIP Tracker Account at the time interim rates were implemented. Instead, the Company used the approved short-term cost of debt from the 2013 rate case to calculate carrying charges. To avoid future misalignment between the CIP Tracker Account and effective rates for a given period, the Company requested in its April 29, 2016 Petition that the Commission allow the Company to update the short-term cost of debt in the CIP Tracker Account upon future changes in rates to be consistent with the Company's effective short-term cost of debt for the given period. The Company also requested that the Commission allow the Company to book an adjustment to the CIP Tracker Account in 2016 that would "true-up" the CIP Tracker Account to what it would have been if the Company had implemented the interim short-term cost of debt at the effective date of interim rates.

Commission approval of these requests would allow the Company to "true-up" the CIP Tracker Account for the interim short-term cost of debt as well as update the short-term cost of debt at the effective date of final rates in its 2015 rate case and book the associated adjustment to address the difference between the interim short-term cost of debt rate and the final short-term cost of debt rate during the test year period. Given the timing of the rate case proceeding, the Company could make one adjustment, instead of the two adjustments discussed above (one to account for the interim short-term cost of debt during the test year and another to account for what carrying charges should have been at the final short-term cost of debt in the test year). This single adjustment could happen at the time of final rates and would account for the final, approved short-term cost of debt starting at the beginning of the test year period. The single adjustment would result in the same outcome in the CIP Tracker Account as the double adjustment option. Either way, the CIP Tracker Account would be adjusted by an amount that would make carrying charges equal to the amount they would be had the final short-term cost of debt been in place starting in October of 2015 (the beginning of the test year).

The DOC recommends that the Commission deny the Company's request. Instead, the DOC recommends that the Commission order the Company to update the short-term cost of debt on June of 2016 to the short-term cost of debt rate that was recently approved in the Company's 2015 rate case. This action would not use the appropriate short-term cost of debt during the test year period and would not allow the Company to keep the short-term cost of debt up-to-date with future rate changes. The Company believes that the CIP Tracker Account should reflect currently effective rates for any given time period in order to appropriately calculate recovery of the Company's CIP expenses. The Company's proposal to make an adjustment to the CIP Tracker Account to account for final rates in the test year is consistent with longstanding practices which was explained in the Commission's Order in the Company's 1992 rate case.

Once final rates are approved and implemented, the Company recalculates revenue recovery and carrying charges during the test year using the final, approved rates. An adjustment is made to the CIP Tracker Account to account for the difference between interim and final rates – in this way the tracker reflects final rates at the start of the test year. As a part of the general rate case process, the Company provides a compliance filing that includes calculations of the difference between revenues collected during the time interim rates were in place and revenues that would have been collected under final approved rates, as well as the accounting entry that will be applied to the CIP Tracker Account to address that difference.

The Company believes that the CIP Tracker Account should not deviate from the rates and timing set forth in a general rate case. A general rate case procedure is where the Commission thoroughly reviews and establishes rates. Therefore, the Company requested that the Commission approve its April 29, 2016 request to adjust the CIP Tracker Account to reflect interim short-term cost of debt for the interim rate period starting in October of 2015 and allow the Company to update its short-term cost of debt in the CIP Tracker Account upon future changes in rates. However, given timing considerations, the Company now proposes to forego the initial adjustment (to reflect the interim short-term cost of debt) and instead calculate the "true-up" adjustment based on the final, approved short-term cost of debt at the start of the test year. This adjustment would occur at implementation of final rates; the short-term cost of debt rate would then also be updated in the CIP Tracker Account at that time to reflect the final short-term cost of debt approved in the Company's 2015 rate case. This method would reduce the number of adjustments to the CIP Tracker Account, while arriving at the same outcome as the methodology requested previously in the Company's April 29, 2016 Petition.

In summary, the Company requests that the Commission:

1. approve the Company's requested 2015 DSM financial incentive of $12,732,019;

2. approve the Company's 2015 CIP Tracker Account as summarized on page 40 of the Company's April 29, 2016 aggregated filing;

3. approve the Company's requested CCRA rate of $0.01553 per therm, effective on January 1, 2017;

4. allow the Company to apply an adjustment to its 2016 CIP Tracker Account to account for the final short-term cost of debt rate from its 2015 rate case, starting in October of 2015;

5. allow the Company to calculate carrying charges on the CIP Tracker Account balance using the Company's effective short-term cost of debt for the applicable period; and

6. approve the Company's requested bill message as stated on page 45 of the Company's April 29, 2016 aggregated filing.

DOC: Regarding the tracker carrying charge, the DOC indicated that the Company's interim rates approved October 2, 2015 reflected a short-term cost of debt of 1.62 percent annually, which corresponds to a monthly interest factor of .13 percent. For the 2016 CIP Tracker Account Forecast, the Company assumed a carrying charge equal to its short-term cost of debt as reflected in interim rates. However, for the 2015 CIP Tracker Account, the Company used the previous short-term cost of debt (0.36 percent annually, 0.03 percent monthly). This meant that the Company used the old rate in the last three months of 2015, the period during which interim rates were in effect. CenterPoint requested that it be allowed to make an adjustment of $1,430 to be booked in 2016 to account for the difference in short-term cost of debt rates; the DOC has verified the adjustment reflects this difference.

However, the Commission rejected CenterPoint's proposed 1.62 percent short-term cost of debt in its June 3, 2016 Findings of Fact, Conclusions, and Order in Docket No. G008/GR- 15-424, and instead approved a short-term cost of debt of 0.65 percent. The DOC recommends that the Commission deny CenterPoint's request to adjust its 2015 CIP tracker to reflect an annual 1.62 percent carrying charge for October through December, and requests that CenterPoint adjust its 2016 tracker to reflect use of an annual 0.65 percent carrying charge (0.05 percent monthly) beginning June 2016. The DOC notes that this update is not likely to materially affect CenterPoint's CCRA calculations.

With respect to the CCRA, the DOC noted that For the CIP tracker balance to zero out in 2017, the CCRA rate would be set at $0.2061/Dth, or double the current rate. If the CCRA rate were based on the Tracker balance zeroing out in 2018 instead, the CCRA would only increase to $0.1553/Dth, a 52% increase over the current rate. To reduce potential rate shock, CenterPoint indicated that it prefers to pursue the second option of a zero-ending tracker balance in 2018. The Company noted that it does not wish to "lock in" that rate for two years, but rather, file a new CCRA adjustment request after one year. CenterPoint requested Commission approval of a CCRA of $0.1556/Dth, to be effective January 1, 2017.

While appreciating the Company's rate shock concerns, the DOC prefers that the Company set the CCRA based upon the goal of reducing the 2017 year-end tracker balance to zero. Avoiding rate shock is a goal that must be balanced with the goal of recovering charges as close to the incurred date as possible. This latter goal not only helps ensure that current ratepayers are the ones paying current costs, but it also avoids imposing these costs on future ratepayers not yet on the system. Further, the goal of maintaining an end-of-year tracker balance of as close to zero as possible minimizes carrying charges imposed on ratepayers (assuming an under-recovered tracker balance).

In this case, the DOC recommends giving more weight to the goals of recovering charges as close to the incurred date as possible and minimizing customer carrying costs. The DOC notes that CenterPoint has carried a relatively large tracker balance in the past, which results in increased costs for ratepayers due to the added carrying charges.

CenterPoint's CIP tracker balance ranged between 8 million and 14 million in the six years prior to 2014. In the past two years, by contrast, the tracker balance was closer to 2.5 million. As the Company has been relatively successful at bringing the year-end balance closer to zero, the DOC would prefer that the Company attempt to maintain this trend.

The DOC has verified that other figures in the CCRA calculation are reasonable and that assumptions made regarding CIP spending and the DSM financial incentive are reasonable. The DOC recommends that the Commission approve a CCRA of $0.2061/Dth to go into effect on January 1, 2017.

In summation, the DOC recommends that the Commission:

1. approve CenterPoint's proposed 2015 DSM financial incentive of $12,732,019 to be included in the Company's CIP tracker account no sooner than the issue date of the Commission's Order in the present docket;

2. approve CenterPoint's 2015 CIP tracker account, as summarized in Table 1 above, resulting in a December 31, 2015 tracker balance of $2,932,026;

3. deny CenterPoint's request to adjust its 2015 CIP tracker to reflect an annual 1.62 percent carrying charge for October through December, and require CenterPoint, beginning June 2016, to set the carrying charge on the CIP Tracker Account balance to the short-term cost of debt set in the Company's most recent rate case, G008/GR-15-424;

4. approve CenterPoint's proposed bill message language; and

5. allow CenterPoint to implement a Conservation Cost Recovery Adjustment of $0.2061/Dt beginning January 1, 2017, conditional on the Company submitting, within 10 days of the issue date of the Order in the present docket, a compliance filing with tariff sheets and necessary calculations that comply with the Commission's determinations in this matter.

IV. Staff Discussion

Staff agrees with the DOC that the 2015 tracker account was calculated correctly. As such, the Commission should approve CPE's 2015 year end CIP Tracker account balance of $2,932,026 as reported by the DOC. In addition, Staff agrees with the DOC that the 2015 CIP incentive amount of $12,732,019 should be approved by the Commission.

With respect to the carrying charge applied to the CIP tracker, Staff agrees with the DOC that the interim short-term cost of debt should not be used in this circumstance. Staff sees no compelling reason to needlessly embroil the CIP Tracker account into the rate case process. Staff would envision that the Commission would clarify the process such that the carrying charge rate would be the rate set by the Commission in its December 17, 2014 Order (2013 rate case short-term cost of debt, 0.36%)[1] would apply until the time the final rates from the 2015 rate case become effective. The short-term cost of debt established by the Commission in the 2015 rate case was 0.65%.[2]

In docket no. G-008/M-14-368, the Commission determined that using the Company's overall rate of return was excessive in the current environment and replaced it with Company's short-term cost of debt. In doing so, the Commission determined that the Company's short-term cost of debt as the best and most reasonable rate available. However, the Commission indicated that there is no perfect match. In its December 17, 2014 Order, the Commission stated:

> 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. (Commission's December 17, 2014 Order at page 3)

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[1] Please see the Commission's December 17, 2014 Order Approving Tracker Account, Approving Financial Incentive, Setting Conservation Cost Recovery Adjustment, and Reducing Carrying Charges Docket No. G-008/M-14-368 at pages 2-3.

[2] Please see the Commission's June 3, 2016 Findings of Fact, Conclusions and Order Docket No. G-008/GR-15-424 at pages 45-47.

This rate could be updated when the new rates from the latest rate case become effective. This should occur in a fairly seamless manner.

Finally, the CCRA rate should be set with the goal of bringing the tracker account to zero in a timely manner. At the same time, the Commission needs to be mindful of the rate impact on the Company's customers. With the factors identified above in mind, Staff believes that it would be reasonable to set the CCRA rate at a level of $0.2061 per D-therm as recommended by the DOC. Staff believes that this rate is appropriate because it is projected to bring about an approximate decrease in the Tracker Balance of $0.00 over 2017.[3] This rate strikes an appropriate balance between moving the tracker balance to zero and customer impact. Next year, the Company should evaluate the progress that has been made, and propose a rate which would maintain the tracker balance at zero.

V. Commission Options

A. Should the Commission approve an incentive of $12,732,019 for CPE's 2015 CIP achievements?

1. Approve CPE's 2015 financial incentive for CIP achievements. (DOC and CPE agree on this item)

2. Do not approve CPE's 2015 financial incentive for CIP achievements.

B. Should the Commission approve CPE's 2015 CIP tracker account?

1. Approve CPE's 2015 CIP tracker account as indicated at page six of the DOC's June 28, 2016 comments. (DOC and CPE agree on this item)

2. Do not approve CPE's 2015 CIP tracker account.

C. How should the carrying charge be calculated and what short-term cost of debt should be applied?

1. Utilize 0.36% (short-term cost of debt established in the Company's 2013 rate case) from October 2015 through the effective date of final rates from the Company's 2015 rate case and use the new rate 0.65% (short-term debt rate established in most recent rate case) on a going forward basis

[3] Please see pages 8 and 9 of the DOC's June 28, 2016 comments for a side-by-side comparison of the estimated tracker balances with a 2017 CCRA rate of $0.2061/D-therm (Table 2)and $0.1553/D-therm (Table 3).

beginning with the effective date of final rates in the Company's 2015 rate case as recommended by the DOC.

2. Allow the Company to apply a retroactive adjustment to the Tracker carrying charge beginning in October 2015 to its 2016 Tracker Account using the final short-term cost of debt rate from its 2015 rate case as recommended by CPE.

3. Maintain the current tracker carrying charge at 0.36% as established in docket No. G-008/M-14-368 CPE's 2013 DSM Financial Incentive proceeding.

D. Should the Commission approve CPE's proposed bill message with the appropriate modifications to reflect an accurate effective date and gas CCRA as determined by the Commission?

1. Approve CPE's proposed bill message with the modifications that the effective date and gas CCRA listed in the bill message be updated in the compliance filing to reflect the Commission's determinations of the effective date and approved rate. (DOC and CPE agree on this item in general)

2. Do not approve CPE' proposed bill message.

3. Delegate authority to the executive secretary to approve customer notices for the duration of this proceeding.[4]

E. At what level should the Commission set the conservation cost recovery adjustment (CCRA) beginning January 1, 2017?

1. Set the CCRA at $0.2061/Dtherm as beginning January 1, 2017 recommended by the DOC.

2. Set the CCRA at $0.1553/Dtherm as beginning January 1, 2017 recommended by the CPE.

3. Leave the CCRA at its current level of $0.1021/Dtherm.

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[4] If the Commission chooses this option, in the event of a change of any circumstances which require a modification of the notice, the matter would not have to come back before the Commission. The matter could be addressed by the Executive Secretary. As such, this would increase flexibility for all involved in the process. The parties may wish to address this issue in the course of comments which they make before the Commission.

VII. Staff Recommendation

Staff recommends items A1, B1, C1, D1&3, and E1.