MINNESOTA
PUBLIC UTILITIES COMMISSION

Staff Briefing Papers

Meeting Date	January 9, 2019	Agenda Item *6

Company	CenterPoint Energy Resources Corp, d/b/a/ CenterPoint Energy Minnesota Gas (CPE, CenterPoint, Company)
Docket Nos.	**G-008/GR-13-316 & G-008/M-18-574**
	In the Matter of an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota
Issues	Should the Commission accept CenterPoint's annual revenue decoupling report for the evaluation period ended June 30, 2018 and approve CenterPoint's revenue decoupling rate adjustments?

Staff	Jorge Alonso	jorge.alonso@state.mn.us	651-201-2258
	Ray Hetherington	raymond.hetherington@state.mn.us	651-201-2203

✓ **Relevant Documents**	**Date**
CenterPoint Energy – 2018 Decoupling Evaluation Report	September 4, 2018
Minnesota Department of Commerce – Comments	October 15, 2018
CenterPoint Energy – Reply Comments	October 24, 2018
Minnesota Department of Commerce – Revised Comments	October 29, 2018

Contents

I. Statement of the Issues

Should the Commission accept CenterPoint's annual revenue decoupling report for the evaluation period ended June 30, 2018 and approve CenterPoint's revenue decoupling rate adjustments?

II. Introduction

This is the Commission's third annual review of CenterPoint's full-decoupling pilot program that was initially approved in the Company's 2013 rate case.[1] Prior to this full-decoupling pilot, the Company had a partial-decoupling pilot that ended on June 30, 2013.

The Company and the Department (DOC) are in agreement on recommending that the Commission:

1. Accept CenterPoint's 2018 Evaluation Report (Report).

2. Approve CenterPoint's revenue decoupling rate adjustments to go into effect on September 1, 2018.

III. Background

A. Minn. Stat. § 216B.2412, Decoupling of Energy Sales from Revenues

According to Minn. Stat. § 216B.2412, the objective of revenue decoupling is to:

A. Reduce CenterPoint's disincentive to promote energy efficiency by making the Company's revenue less dependent on energy sales.

B. Achieve energy savings, and

C. Not harm ratepayers.

B. Pilot Revenue Decoupling Program

On September 4, 2018, CenterPoint Energy filed its Year 3 Decoupling Evaluation Report (Report) for the period of July 1, 2017 to June 30, 2018. The Report included supporting data and calculations for the revenue decoupling adjustment factors that, beginning September 1, 2018, have been applied to ratepayers' bills.

On October 15, 2018, the Department filed comments that included a review of CenterPoint's energy savings that resulted from its Conservation Improvement Program (CIP) and resulted in a recommendation that the Report be accepted and the revenue decoupling factors, which were implemented on September 1, 2018, be approved.

[1] Docket G-008/GR-13-316

On October 24, 2018, CenterPoint Energy filed its reply comments to the Department's October 15, 2018 comments, pointing out that the figures in the Department's Table 8 reflect monthly use and cost, not annual. The Company states that it appreciates the Departments review and analysis and supports the recommendation that the Commission accept the third Decoupling Evaluation Report and approve the decoupling refund adjustments for July 2017-June 2018 that were implemented on September 1, 2018.

On October 29, 2018, the Department submitted revised comments correcting its Table 8 to report annual numbers instead of monthly and reaffirmed its earlier recommendations.

IV. Parties' Comments

A. CenterPoint – Evaluation Report

On September 4, 2018, CenterPoint submitted its third annual report covering the year of July 1, 2017 through June 30, 2018. The Company stated that, as a result of higher than anticipated consumption, CPE over-collected $13,400,002 during the reporting period. Additionally, since RDM recoveries are volumetric, the Company had a $404,507 over-recovery of the previous year's RDM. Thus the total amount to be refunded in the upcoming year is $13,804,509. A summary of amounts to be recovered, by class, is provided in Table 1:

Table 1 - Decoupling Adjustment Balance through June 30, 2018

Customer Class	Decoupling Adjustment Balance through June 30, 2018	Adjustment Made to Reflect 10% Cap	Prior Period Balance	Adjusted Balance
Residential	($7,696,177)		($777,177)	($8,473,354)
Commercial A	($525,740)		($63,764)	($589,504)
Commercial & Industrial B	($611,581)		($53,033)	($664,614)
Commercial & Industrial C	($3,584,070)		($247,752)	($3,831,822)
SVDF A	($457,050)		$421,470	($35,581)
SVDF B	($54,001)		$73,211	$19,210
LVDF	($416,452)		($15,863)	($432,315)
Large Volume General Firm	($54,931)		$258,402	$203,471
Total	($13,400,002)	$0	($404,507)	($13,804,509)

For the evaluation year, residential customers' actual consumption was 94.9 dekatherms, while the weather-normalized anticipated consumption was 89.4 dekatherms. The higher-than-anticipated usage represented an additional 4.3 million dekatherms. For the year, the residential class' $8.5 million refund translates into $10.75 per customer or, as shown in Table 2, $0.89 per month.

Table 2 - Decoupling Adjustment Factors and Average Monthly Impact

Customer Class	Decoupling Adjustment per Therm	Average Monthly Use (in Therms)	Average Monthly Decoupling Adjustment
Residential	($0.01208)	74	($0.89)
Commercial A	($0.02396)	68	($1.63)
Commercial & Industrial B	($0.01190)	245	($2.92)
Commercial & Industrial C	($0.01152)	1,437	($16.55)
SVDF A	($0.00068)	3,673	($2.50)
SVDF B	$0.00039	14,784	$5.77
LVDF	($0.00296)	136,667	($404.53)
Large Volume General Firm	$0.01017	453,300	$4,610.06

Regarding conservation, CenterPoint stated that, when compared to the 2007-2009 pre-decoupling period, 2017 energy savings increased by 205% (Table 3 below) and Conservation Improvement Program (CIP) expenditures increased by 258% (Table 6 below).

A. Department of Commerce – Comments

The Department recommended that CenterPoint's Evaluation Report be accepted and the Company's annual decoupling adjustments be approved. As listed below, the DOC's filing also provided analysis of several subjects.

1. Decoupling's Impact on CenterPoint's Increase in Energy Savings

As it has in previous years, the Department noted that, during both of CenterPoint's pilots, the Company's energy savings did increase; however, the DOC concluded that these savings were not solely due to decoupling. The Department listed the following factors as possible contributors to the achieved energy savings:

- Minnesota adopted an energy savings goal of 1.5% of retail sales.
- The Shared Savings Demand Side Management (DSM) Financial Incentive was increased for utilities to encourage them to work towards and surpass the State energy savings goal. CenterPoint received annual CIP financial incentives averaging more than $9 million over the RD program periods.
- Federal tax incentives to encourage homeowners to make energy-efficient investments in their home were in effect during this time, and
- Customers became more aware of energy conservation in general.

2. Level of Energy Savings

As shown in Table 3, CenterPoint's 2017 energy savings achievements were its highest ever. Furthermore, total savings have increased every year except for 2012. Compared to the 2007-09 average, for 2017, all three customer classes had higher energy savings. Additionally, the Department noted the rebound in low-income energy savings from the previous year.

Table 3 - CenterPoint Historical First-Year CIP Energy Savings[2] (Dth) for Residential, Low-Income Residential, and Commercial and Industrial Customer Classes

Year/Period	Residential	Low-Income	Commercial and Industrial	Overall Program
2007-09 Average	203,100	16,199	644,424	863,723
2010	267,137	15,243	1,017,848	1,300,228
2011	467,107	14,693	1,004,431	1,486,231
2012	496,194	13,510	820,814	1,330,518
2013	515,946	17,075	1,037,790	1,570,810
2014	648,482	21,986	1,031,248	1,701,716
2015	682,540	36,937	1,132,452	1,851,930
2016	671,984	14,250	1,312,399	2,006,014
2017	554,411	32,397	2,045,737	2,632,546
2017 Percent Change from 2007-2009 Average	173%	100%	217%	205%

Table 4 below shows how each customer category contributed to the Company's increase in energy savings between 2017 and the 2007-2009 average.

Table 4 - 2017 CenterPoint CIP Energy Savings increase over 2007-2009 CIP Energy Savings Average, by class

Customer Class	Residential	Low-Income	Commercial and Industrial	Total
Energy Savings Increase (Dth)	351,311	16,198	1,401,313	1,768,823
Energy Savings Increase as Percentage of Total Increase	20%	1%	79%	

[2] Energy savings presented both as first-year energy savings refer to the amount of energy savings that would result from the energy conservation technologies and processes during the first 12 months after implementation. Lifetime energy savings refer to energy savings expected during the lifetime of each of the energy conservation measures and processes. [DOC, comments, p. 5]

As summarized in Table 5, CenterPoint's energy savings, as a percent of 20-year weather-normalized retail sales, increased from 0.54% in 2007 to 1.83% in 2017.[3]

Table 5 – CenterPoint's CIP Energy Savings as a Percent of Weather-Normalized Sales

CIP Plan Period	Year	Applicable Three-Year Average 20-Year Weather Normalized Sales (Dth)	Annual Energy Savings (Dth)	Energy Savings as a Percent of Sales
2007-2008 Biennial Period	2007	154,110,813	825,030	0.54%
	2008	154,110,813	827,340	0.54%
Extension of 2007-2008 Biennial	2009	154,110,813	938,798	0.61%
2010-2012 Triennial Period	2010	150,775,872	1,300,228	0.86%
	2011	150,775,872	1,486,231	0.99%
	2012	150,775,872	1,330,518	0.88%
2013-2015 Triennial Period	2013	139,161,784	1,570,810	1.13%
	2014	139,161,784	1,701,716	1.22%
	2015	139,161,784	1,851,930	1.33%
Extension of 2013-2015 Triennial	2016	139,161,784	2,006,014	1.44%
2017-2019 Triennial Period	2017	143,628,146	2,632,546	1.83%

The Department, as in previous years, attributed those energy savings to the following factors:

- the level of first-year energy savings;
- the different lifetimes of the mix of energy savings achieved each year (for example, large commercial and industrial projects generally have longer lifetimes; even if CPE achieved the same first-time energy savings in two years, the lifetime energy savings for CIP achievements can be higher if there is a higher concentration of longer term projects in the portfolio of CIP projects); and
- changes in lifetime assumptions between triennial CIPs (*e.g.,* the assumed lifetime for behavioral change projects is lower now than when these programs were first introduced).

The Department noted that the third factor makes it difficult to compare changes in lifetime energy savings between triennial CIPs; however, based on the assumptions used at the time for each CIP triennial, CenterPoint's 2017 lifetime energy savings were 219% higher than the Company's 2007-2009 energy savings.

To put CenterPoint's savings in context, the Company's average residential customer annually uses approximately 89 Dth. In 2017 CPE's lifetime energy savings were 38.8 million Dth.

[3] The Department noted that, if 10-year weather normal is used, then 2016 energy savings would be 1.87%.

Consequently, the Company's 2017 lifetime energy savings were enough to provide natural gas service to more than 436,000 residential customers for a year.

3. Energy Savings Expenditures

In Table 6, the Department showed that CenterPoint's 2017 CIP expenditures were more than triple its pre-decoupling annual CIP expenditures.

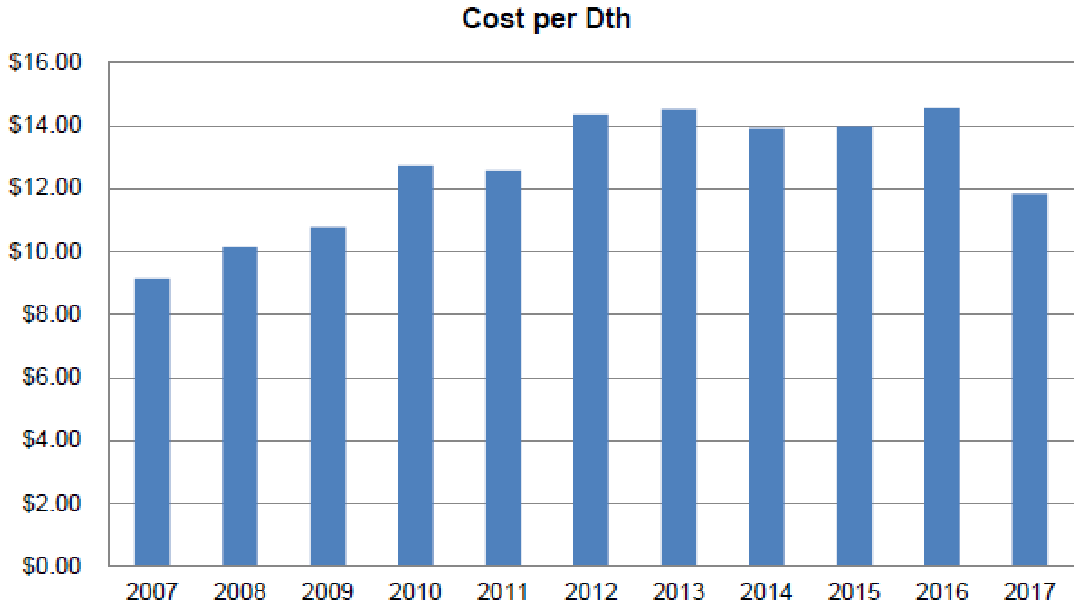
Table 6 - Comparing 2017 CIP Expenditures with Average of Pre-Decoupling (2007-2009) CIP Expenditures

Year/Period	Residential	Low-Income	Commercial and Industrial	Other Projects	Overall Program
2007-09 Average	$2,731,997	$1,787,613	$3,722,836	$444,749	$8,687,195
2010	$7,861,852	$2,121,325	$5,886,263	$705,297	$16,574,737
2011	$10,715,062	$1,867,663	$5,360,144	$771,054	$18,713,923
2012	$10,801,865	$1,977,250	$5,278,953	$1,033,732	$19,091,800
2013	$12,868,507	$2,915,754	$5,875,196	$1,170,253	$22,829,710
2014	$14,054,870	$2,207,285	$6,314,013	$1,125,353	$23,701,520
2015	$15,397,531	$2,665,523	$6,833,760	$996,804	$25,893,618
2016	$17,546,421	$2,701,799	$7,873,273	$1,107,040	$29,228,533
2017	$15,811,617	$3,429,092	$10,619,783	$1,279,602	$31,140,094
2017 Percent Change from 2007-2009 Average	479%	92%	185%	188%	258%

4. Changes in Cost per Dth Saved

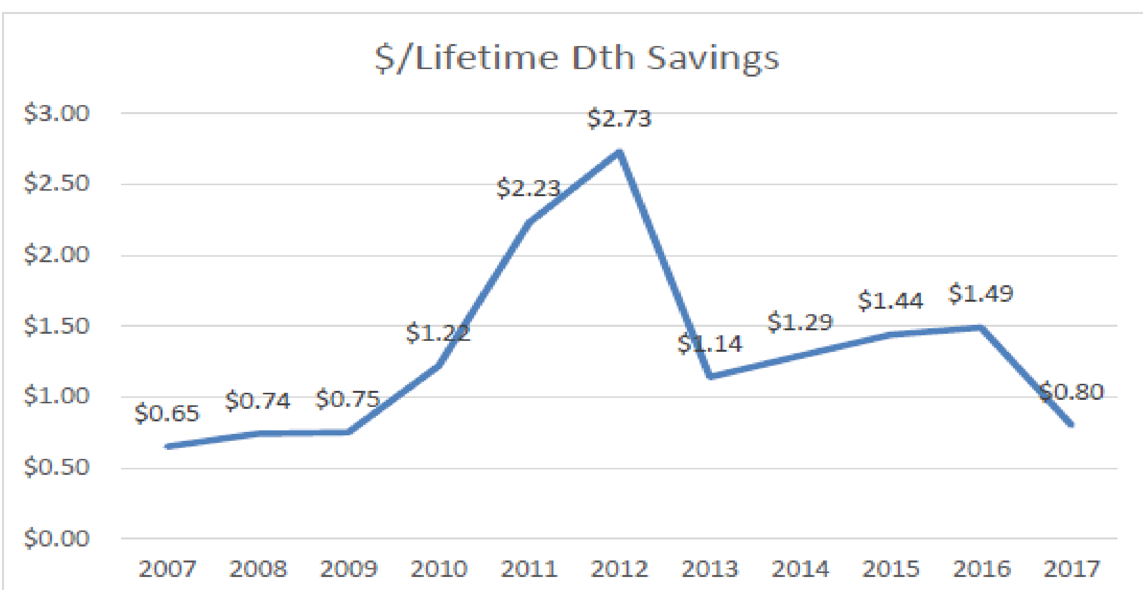
As shown in Figure 1, CenterPoint's 2017 first-year energy savings cost was $11.83/Dth, or 17.9% higher the pre-decoupling average of $10.03/Dth.

Figure 1: CenterPoint's Cost per Dth for First-Year Energy Savings



As shown in Figure 2, CenterPoint's cost per lifetime energy savings peaked in 2012, declined significantly in 2013 and then began to rise again, before dropping again in 2017. 2015-2017 lifetime energy savings cost an average of $1.41/Dth as compared to $0.71/Dth for the pre-decoupling 2007-2009 period.

Figure 2: Cost of Lifetime Energy Savings Created Through Annual CIP Achievements ($/Dth)



5. Under/Over Recovery of Revenues

Colder than normal weather conditions resulted in the under-recoveries summarized in Table 1 above.

6. Decoupling Adjustment Calculation

As illustrated in Table 7 (below), over the last two full revenue decoupling periods, CenterPoint's RD Rider has resulted in:

- Before cap net surcharges of $7,512,945.
- Reductions due to 10% cap of $518,503.
- Total after cap net surcharges of $6,994,442.

Table 7: CenterPoint's Revenue Decoupling Calculations

	2016-2017 Evaluation Plan			2017-2018 Evaluation Plan		
Customer Class	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap	Calculated Surcharge/ (Refund)	Surcharge/ (Refund) After 10% Surcharge Cap	Reduction due to 10% Cap
Residential	$16,783,444	$16,783,444	$0	($7,696,177)	($7,696,177)	$0
Commercial A	$360,457	$360,457	$0	($525,740)	($525,740)	$0
Commercial & Industrial B	$1,315,518	$1,315,518	$0	($611,581)	($611,581)	$0
Commercial & Industrial C	$752,573	$752,573	$0	($3,584,070)	($3,584,070)	$0
SVDF A	$1,565,063	$1,046,560	$518,503	($457,050)	($457,050)	$0
SVDF B	$509,930	$509,930	$0	($54,001)	($54,001)	$0
LVDF	($110,130)	($110,130)	$0	($416,452)	($416,452)	$0
Large Volume General Firm	($263,909)	($263,909)	$0	($54,931)	($54,931)	$0
Total	$20,912,947	$20,394,444	$518,503	($13,400,002)	($13,400,002)	$0

However, over the three-year revenue decoupling period, CenterPoint's RD Rider has resulted in:

- Before cap net surcharges of $33,968,557.
- Reductions due to 10% cap of $782,672.
- Total after cap net surcharges of $33,185,885.

7. Recommendations

The Department recommended CenterPoint's 2018 Decoupling Evaluation Report be accepted. The Department also recommended hat the adjustment factors shown in Table 2 (on page 3 of the briefing papers) be approved and their implementation begin effective September 1, 2018.

V. Staff Analysis

Staff notes that prior Evaluation Reports were filed under various rate case dockets and that practice made it difficult to identify decoupling-related filings. As ordered by the Commission, this was the first year that an Evaluation Report has been filed in its own separate docket. Since the transition to the new filing standard allows for an easier, more expedient review process, the Commission may want to make the change permanent and order the Company to file all future Evaluation Reports in their own separate docket.

Finally, Staff verified the decoupling adjustment factor calculations and concurs with the Department's recommendations to accept the Evaluation Report and implement the adjustment factors.

VI. Decision Options

2018 Annual Decoupling Evaluation Report

1. Accept CenterPoint's 2018 revenue decoupling evaluation report. (CPE, DOC)

2. Reject CenterPoint's 2018 revenue decoupling evaluation report.

Annual Decoupling Adjustment Factors

3. Approve CenterPoint's revenue decoupling adjustment factors. (CPE, DOC)

4. Reject CenterPoint's revenue decoupling adjustment factors and determine what the alternative factors should be.

Future Annual Decoupling Evaluation Report

5. Order CenterPoint to file all future Annual Decoupling Evaluation Reports in their own separate docket. (Staff)