**COMMERCE DEPARTMENT**

April 9, 2019

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/M-18-547

Dear Mr. Wolf:

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

> Petition of CenterPoint Energy Resources Corporation d/b/a CenterPoint Energy Minnesota Gas (CenterPoint Energy) to Introduce a Renewable Natural Gas Pilot Program.

The Petition was filed on August 23, 2018 by:

> Nick Mark
> Manager, Conservation and Renewable Energy Policy
> CenterPoint Energy
> 505 Nicollet Mall, P.O. Box 59038
> Minneapolis, MN, 55402

The Department recommends that the Minnesota Public Utilities Commission require CenterPoint to host a policy discussion about uses of Renewable Natural Gas in Minnesota for non-transportation purposes, inviting agencies such as the Minnesota Pollution Control Agency to contribute their expertise. The Department is available to respond to any questions the Commission may have on the Department's detailed recommendations herein.

Sincerely,

/s/ Dorothy Morrissey
Financial Analyst

/s/ SACHIN SHAH
Rates Analyst

DM/SS/ja
Attachment

COMMERCE DEPARTMENT

# Before the Minnesota Public Utilities Commission

## Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. G008/M-18-547

## I. INTRODUCTION

On August 23, 2018, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas, (CenterPoint Energy, CPE, or the Company) filed a *Petition to Introduce a Five-Year Renewable Natural Gas Pilot Program (Petition)* with the Minnesota Public Utilities Commission (Commission). The Petition stated that the Pilot Program would be a voluntary green tariff offering that would allow customers to purchase all or a portion of their natural gas from renewable natural gas (RNG) sources.

By February 28, 2019 the Commission received comments from Minnesota Department of Commerce, Division of Energy Resources (Department) and the Minnesota Office of Attorney General, Residential Utilities and Antitrust Division (OAG) as well as from other commenters –

- Fresh Energy, Minnesota Center for Environmental Advocacy, Sierra Club, and Wind on the Wires (collectively, Clean Energy Organizations or CEOs),
- The City of Minneapolis,
- The Center for Resource Solutions,
- The Coalition for Renewable Natural Gas,
- The Partnership on Waste and Energy,
- Energy Vision, and
- Bioeconomy Coalition of Minnesota.

On March 1, 2019, the Company filed its Reply Comments. On March 4, 2019 the CEOs filed their Reply Comments. On March 25, the Company filed its proposed revised draft tariffs, and draft marketing and enrollment materials.

On March 29, 2019 the Commission issued its Notice of Comment Period in the instant docket with the following information:

**Topic(s) Open for Comment:**

- The modifications proposed on March 1st to CenterPoint Energy's pilot program and the supplemental information submitted by CenterPoint Energy on March 25, 2019.
- Should CenterPoint Energy's pilot program be approved with or without modification?
- Are there other issues or concerns related to this matter?

## II. DEPARTMENT ANALYSIS

Overall, the Department notes that CenterPoint's proposed changes to the pilot program are helpful in minimizing impacts on non-participating customers. The Department appreciates these improvements. However, there continue to remain important questions about the program that need to be resolved before it can move forward – such as charging ratepayers for environmental attributes that cannot be used for non-transportation purposes, the potential future involvement of CenterPoint's affiliate, and the important policy question of whether Minnesota should establish its own system of credits for RNG used for non-transportation purposes.

The Department's analysis below addresses each of the issues addressed in our earlier comments, in response to the above Notice. While the overall conclusion is that the Pilot is not sufficiently developed at this time, the Department concludes that appropriate development will require input from a broader range of entities. Thus, as discussed further below, the Department recommends that the Commission require CenterPoint to host a workshop to explore the use of RNG for non-transportation uses. This approach is similar to the efforts that occurred prior to the establishment of M-RETS for renewable energy credits for electric utilities.

### *A. RNG INTERCONNECTION*

In its Reply Comments, the Company stated that it was pursuing initiatives to integrate RNG into its fuel supply. The Company stated the following:[1]

> Not only would the proposed Pilot allow the Company to offer customers a choice over their fuel sources, it would also lower the carbon intensity of customers' natural gas supply. RNG can be used interchangeably with traditional natural gas, providing fossil fuel displacement benefits across a range of industries and end uses. Natural gas customers, from individual home owners to major corporations, are increasingly interested in reducing their environmental impact. RNG allows natural gas users to reduce the impact of their gas consumption and allows customers to complement existing renewable electricity offerings with a renewable gas product. Incorporating RNG into natural gas supply provides an opportunity to reduce greenhouse gas ("GHG") emissions while utilizing the existing natural gas distribution system. Replacing traditional natural gas with RNG in many cases provides a greater climate benefit than the electrification of end-uses.

[1] CPE Reply Comments at pages 3-4.

> To facilitate these objectives, and in light of the ratemaking concerns for non-participating customers raised by the Department and OAG, the Company proposes to (1) modify its Pilot proposal; and (2) **develop an RNG interconnection process through which the Company could interconnect local RNG production sources and allow them access to local and national markets.** Each of these proposals is introduced below.
>
> … The Company agrees with the principles advanced by some commenters that the production and use of local RNG is preferable to sourcing RNG from out-of-state facilities, both from an economic and environmental perspective. Facilitating the consumption of RNG in Minnesota through its proposed Pilot is an incomplete strategy to spur the development of the RNG market within the state. There is great potential for RNG development in Minnesota; the Company has received more than a dozen requests from customers or potential customers to interconnect RNG production facilities to CenterPoint Energy's Minnesota distribution system. **Therefore, the Company is working to develop an interconnection process through which the Company can receive and transport locally-sourced RNG. These efforts are currently underway and the Company hopes to file a proposal for an interconnection program for Commission approval in the next few months.** As was demonstrated by the Comments filed by the City of Minneapolis and the Bioeconomy Coalition of Minnesota, many CenterPoint Energy Minnesota customers are eager to find solutions for the carbon emissions related to natural gas use and to expand the use and production of RNG in this state. The Company is proud to partner with these stakeholders and begin this important effort.

The Department notes that the issues in the current docket are related to the "voluntary green tariff" that the Company has proposed. As such, issues on developing and introducing an interconnection tariff or program would need to be decided in a future docket. Thus, a Commission decision on the Company's "voluntary green tariff" and associated RNG proposal (*Petition*) does not preclude parties from discussing and/or disputing the assumptions used in this *Petition* in any future docket involving the Company's "interconnection tariff or program" nor should it preclude the Commission from adopting different assumptions than those used in this *Petition* when reviewing and determining the merits of any interconnection tariff or program proposed by the Company in any future docket.

In CenterPoint's Reply Comments, the Company stated that it had made some modifications to its Pilot proposal or Petition:[2]

> In response to these concerns, the Company proposes to modify its Pilot **so that nonparticipating customers do not bear the risk for any program costs. Instead, the Company will undertake to bear any costs that are not recovered from participating customers. Along these lines, the Company withdraws its request for a shareholder incentive and it no longer requests deferred accounting for program costs.** The Company believes the Pilot will benefit customers by providing an opportunity for those who are concerned about reducing GHGs and encouraging domestic energy use, and the proposed Pilot is one component of the Company's overall RNG objectives.

The Department discusses the Company's modifications below.

*B. USE OF PURCHASE GAS ADJUSTMENT (PGA) MECHANISM*

CenterPoint's initial petition filing for a voluntary RNG Pilot program proposed to include up to $1 million of unsubscribed RNG supply with environmental attributes in its general gas portfolio, recoverable through its purchased gas adjustment (PGA). Thus, up to $1 million per year would have been charged to all sales customers.[3] In its Initial Comments, the Department opposed the use of the PGA to recover unsubscribed costs as proposed by CPE for several reasons, which are briefly recapped below:[4]

- The nature of the program as proposed would no longer be voluntary, and instead would be mandatory, and in so doing would be inconsistent with Minn. Stat. §§ 216B.03 and 216B.07;
- Customers choosing not to participate would effectively subsidize the RNG Pilot;
- CPE did not show the reasonableness of the proposal to charge all ratepayers a significant price increase for the cost of RNG with environmental attributes;[5]
- The PGA is to include only direct commodity-delivered and demand-delivered gas costs;
- Non-participating customers should be shielded from voluntary program costs and allowed to exercise control over their utility bills where possible;
- Proposal would place the full cost risk of RNG gas costs (for a 2,500 Dth monthly purchase contract) on non-participating ratepayers.

[2] CPE Reply Comments at page 4.
[3] CPE Petition, p. 16.
[4] DOC Initial Comments, pp. 18-20.
[5] See also Department Initial Trade Secret Comments, Tables 2 and 3

In response to these and other concerns, through its Reply Comments, CenterPoint modified its RNG Pilot proposal to restrict inclusion of RNG in the PGA to only the monthly excess of any RNG commodity supply, and at a cost amount set to equal the relevant month's weighted average cost of gas (WACOG); the portion of the excess RNG's actual cost above the WACOG would be borne by its shareholders.[6] The Department appreciates CenterPoint's proposed revision, as it would remove the unfavorable RNG gas cost risks from non-participant customers and reasonably resolve this issue raised in our initial comments.

Since the proposal is a Pilot, it is important to learn more about RNG. Thus, in addition to the annual reporting that CPE proposed to carryout for this Pilot program,[7] the Department recommends that CenterPoint also include in its annual PGA report filing a schedule of the RNG supply included in the general gas portfolio. This schedule should report, by month, the quantity and the WACOG price applied to the RNG included in the general portfolio during the PGA reporting period. The schedule should also disclose whether there were any quantity adjustments to the RNG supply previously reported and included in the general portfolio of prior PGA reporting periods, if the prior period excess RNG supply is later reassigned to satisfy Program RNG shortages that occur during the Pilot's RNG Supply Matching Period (defined below in *RNG Shortfall Supply*). This information would be helpful to track the inclusion of RNG supply in CPE's general gas portfolio and the PGA mechanism.

### *C. ADMINISTRATIVE AND MARKETING COSTS*

CPE's initial proposal estimated administrative and marketing (A&M) costs for its RNG Pilot of about $1.33 million over the five-year pilot period, and requested that the program's A&M expenses not recovered through Pilot Charge be deferred, limiting the total amount permitted to be deferred to $1.5 million.[8] The Department's initial comments recommended disallowance of A&M expense in the Pilot Charge and denial of CPE's request for deferred accounting treatment for these costs.[9]

In its Reply Comments, CPE modified its RNG Pilot proposal with respect to the treatment of any under-recovered annual A&M costs and withdrew its deferred accounting request.[10] Both concerns, the A&M expense overall and the deferred accounting issues, are discussed below.

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[6] CPE Reply Comments, pp. 4, 11 and footnote 34.
[7] CPE Petition, pp. 17-18.
[8] CPE Petition, pp. 20-22.
[9] DOC Initial Comments, pp. 8-18.
[10] CPE Reply Comments, pp. 4, 11.

*1. Inclusion of A&M Costs in RNG Pilot Charge*

The Department's concerns raised in initial comments included:[11]

- CPE had not shown that these costs are not represented in other tariffed rates;
- CPE's annual budget for A&M is high, especially compared to other utilities with an RNG program;
- The high A&M costs are not justifiable to serve small number of customers;
- RNG purchases may qualify as a CIP activity, thus must avoid duplication of costs and incentives recoverable through CIP;
- If inclusion of A&M costs for Pilot Program allowed, then such costs should be borne by program participants and not socialized.

In its Reply Comments, CPE stated it modified its proposal to shift RNG Pilot cost risks away from non-participants and instead, the A&M costs would be borne only by program participants and shareholders. CPE stated that only incremental costs will be allocated to the Pilot program and any under-recovered A&M expenses would be absorbed by shareholders. CPE stated it will track RNG Program participation, expense and revenues and will report this information to the Commission in its proposed annual pilot evaluation reports. [12]

The Department appreciates CPE's modifications to its proposed RNG Pilot program that protect non-participating customers from shouldering the Pilot's costs and risks. Together with the proposed Pilot Charge rate design to limit the proportion of the rate designated to A&M cost recovery, the modification to pass the unrecovered A&M costs onto shareholders also currently resolves the Department's concern regarding the magnitude of the A&M estimated costs.

The Department notes that CPE's total A&M cost estimates appear excessive compared to other utility RNG programs, but with CPE's proposed modifications indicating that shareholders will bear the greater portion of these costs, the Department concludes that the issue is resolved.[13] However, any Pilot modifications in future, due to new circumstances such as new

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[11] DOC Initial Comments, pp. 8-13.
[12] CPE Reply Comments, p. 11.
[13] Using CPE's recovery estimates, assuming $35/Dth RNG cost and that 10 percent of Pilot charge recovers A&M, that is, a Program Charge of $3.88889 per Dth would be set for A&M cost recovery. The $3.88889 per Dth Program Charge multiplied by 2,500 Dth of RNG per month (sold to participants) times 12 months per year, results in participants paying approximately $117,000 for A&M per year. When referring to DOC's Table 4 in Initial Comments, the $117K recovery is less than half of CPE's estimated annual A&M costs of $390,150 (for year 1) and $236,300 (for years 2 – 5).

policies or legislative changes, any shift in the current proposed A&M cost burden, would be subject to reevaluation by the Department and Commission.

CPE's Reply Comments stated that only incremental A&M costs (those costs not included in base rates) would be allocated to the Pilot Program. However, the Department emphasizes that it is CPE's burden to prove that costs included in the Pilot Charge are truly *incremental to the utility.* One of the primary concerns raised by the Department with respect to A&M costs is that CPE had not shown that the estimated costs are not already being charged to ratepayers in other tariffed rates, or that its employee complement would or has increased above base rate levels directly as a result of this Pilot Program.[14]

For example, if CPE directs existing CPE employees to work on this program, without replacing those employees, then there would be no incremental employee costs, since the cost of existing employees is already charged to ratepayers in base rates.

Similarly, if CPE hires a new employee to administer the RNG program, but its total employee complement including the new hire is less than the employee complement CPE used to establish base rates, then the new hire would not be incremental to the costs of employees in existing rates.

It appears that some costs included in CPE's initial A&M estimate result from the use of CPE's existing resources (technical operations' time, billing inserts, newsletters, etc.).[15] Although CPE's Reply Comments modified the proposal to state that shareholders would bear the unrecovered RNG Pilot's A&M costs, the Reply did not address the Department's recommended disallowance of internal costs, nor was the proposed A&M cost estimate revised. Since doubt as to reasonableness of rates must be resolved in favor of ratepayers (per Minn. Stat. §216B.03), CenterPoint has not shown that its proposed rates would not double-recover employee costs.

Therefore, until the Company resets its other tariffed base rates in a general rate case proceeding, where internal resource costs can be transparently apportioned among the various programs and their rates, the Department recommends that the Program Charge rate (the component rate of the Pilot Charge designated to A&M costs) be limited to the recovery of incremental external costs. Because customers are subjected to multiple tariffed rates, this recommendation moves toward safeguarding ratepayers from the potential of being charged rates that include replicated resource costs.

[14] DOC Initial Comments, pp. 8-10.
[15] The A&M cost detail was included in DOC Attachment 6 of the Department's initial comments.

### 2. *Deferred Accounting Treatment for Unrecovered A&M Costs*

CPE's initial Petition included a request to defer unrecovered A&M costs during its five-year pilot.[16] In its initial comments, the Department's analysis concluded that these costs did not meet the criteria for deferred accounting and recommended that the request be denied.[17]

In its Reply Comments, CPE withdrew its request for deferred accounting treatment and also modified its RNG Pilot proposal to state that the Company would absorb unrecovered A&M costs on a current basis.[18] The Department appreciates CPE's modified proposal and concludes that this issue is now resolved.

## *D. PROPOSED SHAREHOLDER RETURN*

CPE's initial Petition included a request for a shareholder return on its RNG Pilot program equivalent to $0.10 per therm of RNG sold.[19] In its initial comments, the Department opposed this request for several reasons.[20]

In its Reply Comments, CPE withdrew its request to include a shareholder return.[21] The Department appreciates CPE's modified proposal and concludes that this issue is now resolved.

## *E. CREDITS FOR USING RNG*

### 1. *RNG Used as Transportation Fuel*

CPE's Petition included some discussion of two known RNG-related credits, earned when the RNG's end use is for transportation fuel;[22] however, CPE's proposed end uses of the RNG Pilot would not qualify for these credits. Of the available credits for RNG transportation use, one is granted by the state of California (Low Carbon Fuel Standard[23] or "LCFS") and the other is

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[16] CPE Petition, pp. 20-22.
[17] DOC Initial Comments, pp. 13-18.
[18] CPE Reply Comments, p. 4, 11.
[19] CPE Petition, pp. 12, 18-19.
[20] DOC Initial Comments, pp. 20-22.
[21] CPE Reply Comments, p. 4.
[22] CPE Petition, pp. 9-10, 15.
[23] The LCFS requires refineries and fuel suppliers in California to reduce the carbon intensity of its transportation fuels ten percent by 2020. Refineries and fuel suppliers can meet these targets by mixing in fuels with lower carbon intensity into the overall supply or purchasing credits. *Renewable Natural Gas: The RNG Opportunity for Natural Gas Utilities*, M.J. Bradley & Associates (April 2017) available at https://www.mjbradley.com/reports/renewable-natural-gas-rng-opportunity-natural-gas-utilities (accessed March 27, 2019).

granted by the federal Renewable Fuel Standard[24] (which issues Renewable Identification Numbers, or "RINs").

The Department's initial comments pointed out that CPE has a compressed natural gas (CNG) fueling station in Burnsville, Minnesota and uses natural gas as a vehicle fuel for its fleet.[25] CPE also purchases RNG without the environmental attributes or credits from a Minnesota located RNG producer that is interconnected to CPE's distribution system. The Department requested the Company to discuss the Company's (or any affiliate's) realized, and potential to earn, federally granted RINs. The Department also requested the Company to discuss how its affiliate company, CenterPoint Energy Services, Inc., a certified RIN generator, complies with existing Minnesota's affiliated interest rules and statutes relevant to regulated utilities, in the context of the proposed Pilot.

The Company's Reply Comments stated that it does not purchase RNG for its CNG fueling station and has no plans to begin to do so at this time.[26] CPE also stated that the RNG purchased from the interconnected RNG producer is purchased without environmental attributes, and thus would not generate RINs even if it were used as vehicle fuel. Per CPE, no RIN or LCFS credits are awarded to CPE, its affiliates or any other person in relation to CPE's CNG fueling station. The Company corrected an information request response, revising it to explain that CenterPoint Energy Services, Inc., an unregulated affiliate of CPE, is not yet a RIN generator, but has applications pending before the Environmental Protection Agency (EPA) to become a RIN generator.

In the meantime, while CPE's Minnesota fleet fuel use may be outside of its proposed RNG Pilot, it would be helpful for CPE to provide more information about potential operational savings opportunities. Further exploration of CPE's CNG fleet and fuel source, given the existence of renewable transportation fuel related credits, may be more appropriate to discuss within CPE's forthcoming general rate case filing and in any future applicable filings if its affiliate becomes an approved RIN generator. Since CPE has and uses CNG fueled fleet, if it earned RINs and could sell the RINs to other entities required to meet mandates, whether doing so could lower its operating costs.

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[24] The federal RFS requires a certain volume of renewable fuel to replace or reduce the quantity of petroleum-based transportation fuel, heating oil, or jet fuel used in the U.S. each year. Refineries and fuel suppliers attain compliance by either blending quantities of renewable fuel in transportation fuel supply or obtaining enough RINs to meet mandated obligations. *Renewable Natural Gas: The RNG Opportunity for Natural Gas Utilities*, M.J. Bradley & Associates (April 2017) available at https://www.mjbradley.com/reports/renewable-natural-gas-rng-opportunity-natural-gas-utilities (accessed March 27, 2019).
[25] DOC Initial Comments, pp. 22-23.
[26] CPE Reply Comments, pp. 12-13 and Footnotes 40 and 41.

Therefore, the Department would like CPE to provide in its general rate case, and in any future filings involving affiliate RNG transactions or services, a discussion along with the Company's analysis evaluating any net benefit potential, the demand for RINs and other key points, including cost allocations to its affiliate. The discussion should include what would be involved to revise its existing RNG purchase contract terms to include the environmental attribute and the pricing impacts. The Department recommends that the Commission direct CPE to include such a discussion and analysis in its forthcoming general rate case filing since operating expense savings typically would be reflected in base rates.

With respect to the Department's request of CPE to discuss an affiliate's compliance to Minn. R. 7825.1900 – 7825.2300 and Minn. Stat. §216B.48, CPE's Reply Comments did not discuss the relevance of these regulations. Instead, CenterPoint corrected its response to an information request and explained that CenterPoint Energy Services, Inc. is not yet an approved RIN generator but is in the process of becoming one. CPE's Reply distinguished that RINs are tied to renewable transportation fuels, which is not the expected end use of RNG purchases for its RNG Pilot program. The Department understands that CPE's current operating activity and its Pilot as proposed may not qualify to earn RINs at this time, however, CPE affiliate's emerging involvement in RNG credit activity and how it may potentially serve the regulated utility is of interest to the Department. Therefore, the Department recommends that CPE, in its forthcoming rate case filing and in any future filings involving RNG, to keep the Commission abreast of any further developments of CPE affiliate's pursuit as a RIN generator and how the affiliate, as an approved RIN generator, may benefit from CPE's proposal, what costs should be allocated to its affiliate, and whether its affiliate would be expected to serve CPE in future should the utility consider use of RNG in its fleet vehicles. The Department recommends that the Commission direct CPE to include this additional information in its forthcoming rate case filing and in any future filings involving RNG transactions or services.

*2. Non-Vehicle Fuel RNG*

The Department listed several observations and concerns in its Comments regarding the Company's proposal as follows:[27]

- CenterPoint is not aware of any analogous environmental certification standard similar, for instance, to that provided by M-RETS (Midwest Renewable Energy Tracking System), for non-vehicle-fuel RNG, nor is the Company "aware of any policies, either at the state or federal level, to promote RNG use in the residential, commercial, or industrial sectors;"[28]

[27] Department's January 9, 2019 Comments at pages 1 and 7.
[28] Petition, page 10.

- CenterPoint had not identified the basis upon which its current, or any other, RNG supplier would charge CPE more for environmental attributes associated with non-vehicle-fuel-use RNG, given that there is not a non-vehicle-fuel-use credit market or tracking system for non-vehicle-fuel-use of RNG;

- Nor had CPE shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG;

- Thus, given that only the RNG purchased and used as vehicle fuel is eligible for the LCFS and RIN credits, and there is no credit program or tracking system in place to form the basis for the value of renewable attributes of non-vehicle-use RNG, it is unclear whether any RNG contract entered into for the purposes of the proposed Pilot would be at a reasonable price; and

- The Company proposed to establish procedures for the tracking and reporting of the RNG it purchases. The Department agrees that such tracking and reporting would be necessary, but questions whether tracking in isolation of the RNG market as a whole or on a regional basis (similar to M-RETS) would be adequate to ensure that the Pilot results in an expansion of the RNG market. Such a mechanism would also be necessary to ensure that the RNG is not double-counted. Such a mechanism could be developed in a manner similar to the establishment of M-RETS in light of the provisions in Minnesota Statute §216B.169.

In its Reply Comments, the Company stated the following:[29]

> Additionally, GHG reductions are not the only benefit of RNG. As was highlighted by the Comment of the Partnership on Waste and Energy, developing markets for RNG has potential to support improved waste management, such as organics recycling programs. Similarly, anaerobic digestion can improve management of manure at Confined Animal Feeding Operations.[24] Investing in RNG also produces new revenues streams for municipal wastewater operations and agriculture. **More fundamentally though, the goal of this Pilot is not to drive major GHG emissions reductions – or any other specific environmental or economic benefit – solely through individual Pilot participation. The goal of this program is to answer customer demand for renewable options for their homes and businesses and to start a broader effort to increase utilization of RNG**

[29] CPE Reply Comments at pages 7-8.

> **resources and reduce the environmental impact of natural gas use.**
>
> **In addition, by developing an interconnection process, CenterPoint Energy hopes to use existing and further develop new sources of RNG supply within the state.** An interconnection tariff should provide the Company more options for sourcing, and as a result, the Company hopes to be able to purchase smaller quantities of RNG than are currently available via RNG brokers, for example. **Over time the increased supply should also lower prices, especially if the Company is able to enter into longer-term contracts that would provide stability to suppliers dependent on the California Low Carbon Fuel Standard ("LCFS") and federal Renewable Fuel Standard ("RFS") pricing structures and their attendant regulatory risk.**
>
> … As discussed above, the Company's efforts to develop an interconnection process will also spur and facilitate the development of a local RNG market, and the attendant environmental benefits, within the state.
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> ________________
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> 24. Great Plains Institute, Spotlight on Biogas: Policies for Utilization and Deployment in the Midwest, p. 34 (Aug. 2010), available at https://www.betterenergy.org/blog/spotlight-biogas-policies-utilization-deployment-midwest/

As noted above, the merits of the Company's proposed interconnection process and development are not ripe for discussion until the Company files its proposal. Previously, the Company stated that it was "choosing to offer this program because of its corporate commitment to sustainability and its belief that many of its customers will appreciate having a renewable natural gas option."

Whereas now, as mentioned above, the Company claims that "the goal of this Pilot is not to drive major GHG emissions reductions – or any other specific environmental or economic benefit – solely through individual Pilot participation" and instead that "the goal of this program is to answer customer demand for renewable options for their homes and businesses and to start a broader effort to increase utilization of RNG resources and reduce the environmental impact of natural gas use."

While it may be true that "developing markets for RNG has potential to support improved waste management" and "investing in RNG also produces new revenues streams for municipal wastewater operations and agriculture," the Department's concerns described above continue to remain in place; and, in particular the Company still has not shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG, particularly when CPE's proposed end uses of the RNG Pilot would not qualify for these environmental attributes or credits.

*3. Non-Vehicle Fuel RNG Verification and Tracking*

The Department's Comments stated the following:[30]

> CenterPoint has not identified the basis upon which its current, or any other, RNG supplier would charge CPE more for environmental attributes associated with non-vehicle-fuel-use RNG, given that there is not a non-vehicle-fuel-use credit market or tracking system for non-vehicle-fuel-use of RNG. Nor has CPE shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG.
>
> Thus, given that only the RNG purchased and used as vehicle fuel is eligible for the LCFS and RIN credits, and there is no credit program or tracking system in place to form the basis for the value of renewable attributes of non-vehicle-use RNG, it is unclear whether any RNG contract entered into for the purposes of the proposed Pilot would be at a reasonable price. Arguably, if the Pilot were completely voluntary the price may not be a material matter; however as proposed, all of CenterPoint's ratepayers are at risk for paying the contract price.
>
> … The Company proposed to establish procedures for the tracking and reporting of the RNG it purchases. The Department agrees that such tracking and reporting would be necessary, but questions whether tracking in isolation of the RNG market as a whole or on a regional basis (similar to M-RETS) would be adequate to ensure that the Pilot results in an expansion of the RNG market. Such a mechanism would also be necessary to ensure that the RNG is not double-counted. Such a mechanism could be developed in a manner similar to the establishment of M-RETS in light of the provisions in Minnesota Statute §216B.169.

[30] Department January 9, 2019 Comments at pages 6-7.

In its Reply Comments, the Company stated the following:[31]

> The Department, OAG, CRS, Fresh Energy, and the City of Minneapolis emphasized the importance of developing tracking and certification systems to ensure that the RNG purchased by the Company is authentic and sold only to the Company. CenterPoint Energy agrees that it will be critical to establish tracking and verification systems so that subscribing participants can be confident they are purchasing authentic RNG and to ensure that the program is supporting new RNG development as promised.
>
> …These contracts will require the RNG supplier to certify the renewable attributes and that CenterPoint Energy has full and sole ownership of those attributes. RNG suppliers will also be required to allow the Company independent verification of the production and transactions related to the Company's RNG supply volumes.
>
> The Company is committed to transparency, and the integrity of this innovative Pilot is essential to its success. Toward that end, no step is more essential than the verification of the renewable claims of the Company's RNG supply.
>
> … CenterPoint Energy agrees it may be beneficial to engage a third-party auditor to review the Company's RNG purchases and documentation.[28] The Company will consider engaging an auditor to assess the program, particularly if it appears that credible third party verification is not likely to be available during the early stages of the Pilot's operation.[29] The Company is participating in efforts to establish third-party tracking and verification systems, working with both CRS and the Midwest Renewable Energy Tracking System ("M-RETS"), and hopes that these systems will be available within the first year of the Pilot.[30]
>
> Regardless of the verification and tracking methodologies used, the Company will commit to verifying the renewable claims for all supply used in its Pilot in its Annual Program Evaluations. The verification will include:

[31] CPE Reply Comments at pages 8-10.

1) Confirmation of the renewable fuel feedstock;
2) Confirmation of the renewable fuel production process;
3) Review of fuel flow measurement and quality monitoring process and equipment;
4) Review of contracts and affidavits governing the transfer of the RNG from the original source to the end user; and
5) Review of evidence confirming the existence of a physical path (common carrier pipeline) for RNG transfer and distribution to end user.

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Footnotes Omitted.

The Department appreciates that the Company is committed to the transparency and verification of the renewable claims of the Company's RNG supply.

As the Department stated previously, only the RNG purchased and used as vehicle fuel is eligible for the LCFS and RIN credits, and there is no credit program or tracking system in place to form the basis for the value of renewable attributes of non-vehicle-use RNG. Thus, existing societal programs ascribe value to RNG only when it is used as a transportation fuel, which leads to the reasonable question as to whether, under these circumstances, any RNG contract entered into for the purposes of the proposed Pilot would be at a reasonable price.

In addition, as the Company has stated, they are not "aware of any policies, either at the state or federal level, to promote RNG use in the residential, commercial, or industrial sectors."[32]

Thus, even if the Company were to "require the RNG supplier to certify the renewable attributes and that CenterPoint Energy would have full and sole ownership of those attributes" the current LCFS and RIN renewable attributes would be meaningless given that they cannot be used for non-vehicle-use RNG.

Second, it may be less costly for the Company to engage an independent third-party auditor to review the Company's RNG purchases and documentation in detail inclusive of the 5 steps described above as opposed to establishing verification and tracking systems with CRS, Green-e and/or M-RETS, especially since no market currently exists for renewable attributes of non-vehicle-use RNG in light of the Company's awareness of the lack of "any policies, either at the state or federal level, to promote RNG use in the residential, commercial, or industrial sectors."

[32] Petition, page 10.

In the Additional Materials filed by the Company on March 25, 2019 in the instant docket, the Company stated the following:

> In addition to the attachments, the Company would like to correct a statement in its Reply Comments, filed in this docket on March 1, 2019. On page 8, footnote 26, the Company inaccurately stated that several California Air Resources Board [(CARB)] fuel pathways are approved for Minnesota RNG producers. The California Air Resources Board website instead lists several approved Minnesota ethanol and biodiesel producers, but no Minnesota RNG producers.[2] The Company's overall point, that it would be possible for the Company to find Minnesota RNG supply for the Pilot, is accurate. There is currently at least one RNG producer within the State of Minnesota, and the Company is aware of several other RNG projects in development.
>
> ______________
>
> 2. California Air Resources Board, LCFS Pathway Certified Carbon Intensities, https://www.arb.ca.gov/fuels/lcfs/fuelpathways/pathwaytable.htm (last visited Mar. 19, 2019).

The Department is sympathetic to the Company's goal of developing a program "to answer customer demand for renewable options for their homes and businesses and to start a broader effort to increase utilization of RNG resources and reduce the environmental impact of natural gas use (via displacement of conventional natural gas)." Further, the Department agrees that "Investing in RNG also produces new revenues streams for municipal wastewater operations and agriculture."

To accomplish these goals in a reasonable way, and to allow participants in an RNG green pricing program to actually own environmental credits, the Department recommends that the Commission require CenterPoint to host a workshop to explore the use of RNG for non-transportation uses. Similar to the efforts that occurred prior to the establishment of M-RETS, such a workshop could invite other governmental entities having expertise in this specific area (e.g. the Minnesota Pollution Control Agency, Minnesota Department of Agriculture), and address various issues, such as information about potential sources of RNG in Minnesota, how production and use of RNG could be tracked, whether and how any credits should be established in Minnesota for use of RNG in a non-transportation end-use, etc. Such information would be vital before moving forward with a pilot.

*F. GENERAL ACCOUNTING FOR PILOT PROGRAM*

The Department requested the Company to identify both the internal and FERC accounts it intended to use to record the Pilot Program activity. In Exhibit 2 of its Reply Comments, CPE discussed and identified the proposed accounts to record RNG Program expenses and revenues, reflecting CPE's proposed Pilot modifications. Also, CPE stated in an information request that in a general rate case filing, when developing its test-year for base rate proposals, the Company would make adjustments to exclude all RNG program specific accounts.[33] The Department reviewed the information and concludes that the Company's proposed accounting for the RNG Pilot as modified is reasonable.

The Department understands that CPE may propose modifications to RNG cost tracking and recovery in the future, should new legislation or policies emerge that affect the RNG industry in Minnesota. [34] Such policy or legislatively driven modifications to CPE's currently proposed accounting and tracking would need to be subject to review by the Commission.

*G. RNG SUPPLY SHORTFALL*

*1. Participant Bills and Refunds*

CPE stated that it anticipates having sufficient RNG supply for the Pilot participants.[35] The Department asked CPE to clarify any impact on the appearance of customer bills if CPE incurred RNG supply shortages, as compared to the monthly RNG sales quantity.[36] CPE explained that customer billing would continue to bill participants at their subscription level, and resolve shortages using prior month excesses or procure additional RNG supply during the proposed Matching Period. The Matching Period would extend from six-months prior to calendar year to three-months following the calendar year in which a shortage occurred. CPE explained that this proposed matching period would mirror the Green-e framework for renewable energy certification.[37] If RNG supply shortages cannot be resolved during the Matching Period, at the end of each program year, participating customers would be refunded their proportional share of the undersupplied RNG, equal to the difference in the RNG Pilot Charge and the WACOG of conventional gas. The Company clarified to the Department informally by phone that it would apply the systematic first-in-first-out approach when excess RNG quantities are used to resolve any given month's supply shortfall. The Department concludes that CPE's approach to remedy RNG supply shortfalls appears reasonable.

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[33] DOC IR No. 53 included as DOC Attachment 1-RC.
[34] CPE Reply Comments, p. 11.
[35] DOC IR No. 51 included as DOC Attachment 2-RC.
[36] DOC IR No. 51 included as DOC Attachment 2-RC.
[37] DOC IR No. 54 included as DOC Attachment 3-RC.

*2. Environmental Attribute Ownership of Excess RNG not Used to Satisfy Shortfalls*

The Department also asked CPE to clarify the ownership of any RNG environmental attribute tied to any excess RNG supply not used by the Pilot subscribers.[38] CPE stated that if the Company is able to sell excess RNG environmental attributes, it would credit the program tracker with those revenues, but also conveyed that current conditions suggest that there is the lack of a market for environmental attributes of RNG without the commodity gas. Since shareholders would bear any unrecovered program expenses, this treatment, which reduces program expenses, would essentially assign the ownership of the environmental attributes of the excess RNG supply to shareholders.

As long as the cost risk for any excess RNG supply attributes would be borne by the shareholders, as proposed in CPE's Reply Comments, the Department concludes that this assignment would be reasonable.

*3. Impact to Pilot Charge if Supply Shortage Triggers Additional RNG Procurement*

CPE envisions that it would have a surplus of RNG supply, and thus believes that it is unlikely that CPE will encounter a supply shortfall situation. The contracted RNG purchase price is expected to be known ahead of Pilot effective date, and would be used to inform the calculated tariffed Pilot Charge per therm. CPE also indicated that the frequency of any changes to the RNG Pilot Charge would be done annually, as part of its annual Pilot evaluations, implementing the new rate effective on September 15th (the date of the annual filing), subject to refund.[39,40]

However, if CPE experiences a situation that gives rise for a need to procure additional RNG supply to meet Pilot program demand, the Department would like CPE to explain how it would remedy RNG Supply pricing changes that diverge from the proposed year-long tariffed rate. CPE's Petition proposal stated that "the price that the Company pays for RNG supply including the cost of any renewable attributes or credits that are bundled with the purchased RNG supply"[41] is the price that it would charge its enrolled customers. Therefore, the Department would like to better understand CPE's proposal and gain assurance that ratepayers participating in the pilot would be charged rates that reflect what the Company pays for the RNG supply.

[38] DOC IR No. 50 included as DOC Attachment 4-RC.
[39] DOC IR No. 55 included as DOC Attachment 5-RC.
[40] CPE Petition, pp. 15-16, 17-18.
[41] CPE Petition, p. 11. Note that, in this statement, CPE indicates that it would purchase environmental attributes.

### *H. COMPARISON OF CPE'S PROPOSED PILOT TO OTHER UTILITIES' RNG PROGRAMS*

The Department's initial comments requested CPE to provide a comparison of the projected costs and the complexity of its proposed pilot to the two known and existing RNG programs offered in Michigan and in Vermont. In Exhibit 4 of its Reply Comments, CPE provided the comparisons. CPE's proposal does not mirror either of the two existing programs; however, from CPE's research efforts, both of these other utilities' existing programs' published estimated costs to administer/market appear to be less than CPE's projected costs. CPE's reported finding with respect to cost comparisons is similar to the Department's initial comments findings.[42] As discussed earlier, CPE modified its proposal to assign any unrecovered administrative, marketing and RNG supply costs to its shareholders; that modification, along with CPE's proposed rate design to limit the portion of the rate designated toward recovery these A&M costs to be no more that 10 percent of the total Pilot Charge, may incent CPE to keep these costs low.

Overall, CPE indicated that its proposed RNG Pilot is similar to Vermont Gas Systems' RNG program; for both, customers elect a subscription level[43] and consume both the RNG commodity and attribute. CPE's assessment of DTE Gas Company's program offered in Michigan, though aimed to reduce methane emissions and encourage RNG resource development, in CPE's view, does not appear designed to help develop an RNG market analogous to markets that exist for renewable electricity. Unlike CPE's proposal, all participants in DTE Gas's RNG program pay the same flat amount to essentially fund the premium cost of locally purchased RNG over the conventional gas market price.

The Department appreciates CPE's inclusion of a more in-depth comparison of its proposal to those known existing RNG programs currently in operation. This comparison is a means that not only helps inform stakeholders, but also leads CPE to better explain the reasons for its design attributes. As an emerging pilot program, its development can benefit from evaluating the experience of existing programs to improve the likelihood for favorable experience and outcome for both its customers and the industry.

### *I. PROPOSED RNG PROGRAM YEAR*

CPE proposed a 5-year pilot term, setting its RNG Program Year to cover the 12-month period from July 1 through June 30, except the first program period, with the Pilot beginning no sooner than September 15, 2019, and ending June 30, 2020.[44] The proposed RNG Program Year period would align with CPE's purchased gas year period. The Department does not oppose a 5-year pilot term and concludes that the RNG Program Year period proposed is reasonable.

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[42] DOC Initial Comments, p. 9.
[43] The measure of subscription level differs; CPE proposed an elected dollar maximum, whereas Vermont Gas Supply uses a percentage-of-gas-usage measure.
[44] CPE Petition, Section IX, p. 18.

### *J. PROPOSED ANNUAL REPORTING, TRACKER AND RATE CHANGE*

CPE proposed to file an annual Pilot report on September 15, covering the RNG Program Year ending June 30 earlier that same year.[45] The report would include the program revenues and expenses, the number of customers participating, the quantity of RNG sold, and other information as outlined on pages 17 – 18 and in Attachment B (tracker schedule) of CPE's Petition. In addition, CPE proposed that the September 15 annual report filing would include any requests CPE may have for program modifications and would also include any change to the per therm price of RNG, requesting that the price change be effective on September 15, subject to refund.

The Department recommends that the Commission require some additional information to be added to CPE's drafted program tracker included as Attachment B to CPE's Petition. Currently, the proposed schedule has an "Expenses" section and a "Recovery" section. The Department recommends that the "Recovery" section of the tracker schedule include and report for each month the "Amount Recovered for RNG Commodity from General Gas portfolio."

The Department also requests the addition of two sections to the tracker, an "RNG" section and a "Refund" section. In the "RNG" section, the Department requests that the Commission require CPE to report, for each month, the following:

- total RNG received (in Dths),
- RNG quantity used by the voluntary program participants,
- RNG excess/(shortage) quantity,
- RNG excess quantity used to resolve prior month shortage;
- RNG quantity directed to general gas portfolio,
- The WACOG price per Dth applied to RNG included in the general portfolio, and
- Quantity of RNG initially included in general gas portfolio later reallocated to resolve a Pilot program shortage in subsequent month.

In the "Refund" section, the Department requests that for any applicable month refunds are issued that CPE report:

- For the 20XX calendar year, total refund amount issued,
- Amount of Refund due to RNG Quantity (shortage),
- Amount of Refund due to RNG Price or Rate Revision.

Lastly with respect to the tracker report, because CPE's proposed Matching Period (to resolve demand/supply differences) straddles multiple Pilot Program years, the Department recommends that the Company include in its annual filing the prior year's tracker schedule,

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[45] CPE Petition, pp. 17-18.

noting any updates that may have occurred since prior reporting period, such as use of excess RNG reported in prior period to resolve shortages in subsequent program year.

Earlier in these comments, the Department asked CPE to provide more information on its view of a potential mid-program year RNG procurement event that may merit a RNG Pilot Charge change. Aside from reviewing that forthcoming discussion, the Department does not oppose CPE's approach to allow a revised annual RNG Pilot rate change to go into effect, subject to refund, on the date of the annual Pilot report and evaluation filing. However, it should be absolutely clear that any over-recovery of costs will be returned to ratepayers. The Commission may wish to require CPE to place at least a portion of revenues from rates that are put in place on a provisional basis in an escrow account, it the Commission has concerns as to its ability to require refunds at a later date. Further, as both this Pilot and the RNG industry are emerging, should issues arise, the Department may revisit whether immediate implementation of a Pilot tariff rate change coincident with CPE's annual report filing remains reasonable.

## *K. CLARIFICATIONS*

As noted above, the Department concludes that CPE's proposed Pilot requires further development. However, the Department analyzes each aspect of the Company's *Petition*, as modified, for future reference. Thus, for example, the Commission should require the Company to make the following revisions and clarifications as outlined below.

### *1. Proposed Draft Marketing and Webpage Materials*

In the Company's Reply Comments, the Company stated the following:

> … The Company agrees, however, that the price per therm is also critical to communicate; the Company wants participating customers to enter the program fully informed.
>
> The Company is preparing a draft enrollment webpage and introductory marketing piece and will file those materials with the Commission within the next few weeks.[32] Though the Company has not finalized its plans for the enrollment page it anticipates framing customer selections in terms of average residential appliance natural gas use. For example, the Company may provide options such as "$9/month – RNG to cook my food" or "$58/month – RNG to heat my water."[33] The Company believes that this approach offers high transparency about the cost of the RNG the customer is selecting while also putting the quantity of gas in terms a customer is more likely to understand.

32 The Company will also file new revised tariffs, reflecting the modifications made to the proposed Pilot in these Reply Comments.

33 Figures are based on a $35/Dth price for RNG and 2015 average natural gas use in the Midwest West North Central regions from the Residential Energy Consumption Survey conducted by the U.S. Energy Information Administration. See https://www.eia.gov/consumption/residential/data/2015/c&e/pdf/ce5.4.pdf.

In the March 25, 2019 materials filed by the Company, the Department recommends that the Company correct the statements of "$19.00/mo. - Enough to warm my showers" in Attachment 1 at page 1-5 and ""$19.00/mo. – to heat water for my shower" in Attachment 2 at page 2-2. Given the Company's statement above, the correct amount would be the $58 per month, not $19.

*2. Proposed Tariffs*

As mentioned above, the Company has proposed to modify its Pilot so that "**nonparticipating customers do not bear the risk for any program costs. Instead, the Company will undertake to bear any costs that are not recovered from participating customers.** Along these lines, the Company withdraws its request for a shareholder incentive and it no longer requests deferred accounting for program costs." [Emphasis added]. In the Company's proposed tariffs, the Company provided the following language:

> **Purpose:**
> The purpose of this Voluntary Renewable Natural Gas (RNG) Purchase Rider (Rider) is to allow customers to purchase all or a portion of the natural gas they use from renewable sources through the Company's RNG Pilot program. Amounts recovered by the Rider are used to pay for the commodity cost of renewable natural gas, including environmental attributes, and renewable natural gas program administrative and marketing expenses.
>
> **Use of Revenues and Revenue and Expense Tracking:**
> At least ninety percent of RNG Pilot Purchase revenues will be used to offset the commodity cost the Company pays for renewable natural gas supply, including environmental attributes. Up to ten percent of revenues collected through customers' RNG Pilot Purchases may be used to offset RNG Pilot program marketing and administrative expenses.

> The Company will maintain an accounting of the monthly balance of total RNG Pilot Purchase revenues and expenses associated with offering the RNG Pilot program, including RNG purchases and administrative and marketing expenses. The Company may petition the Commission to annually adjust the RNG Price depending on the cumulative balance of revenues received and expenses incurred.

Given the Company's commitment above, the following changes (underlined and/or stricken) should be made to the proposed tariffs as follows:

> **Purpose:**
> The purpose of this Voluntary Renewable Natural Gas (RNG) Purchase Rider (Rider) is to allow customers <u>who wish to participate</u> to purchase all or a portion of the natural gas they use from renewable sources through the Company's RNG Pilot program. Amounts recovered by the Rider are used to pay for the commodity cost of renewable natural gas, including environmental attributes, and renewable natural gas program administrative and marketing expenses.
>
> **Use of Revenues and Revenue and Expense Tracking:**
> At least ninety percent of RNG Pilot Purchase revenues will be used to offset the commodity cost the Company pays for renewable natural gas supply, including environmental attributes. Up to ten percent of revenues collected through customers' RNG Pilot Purchases may be used to offset RNG Pilot program marketing and administrative expenses.
>
> The Company will maintain an accounting of the monthly balance of total RNG Pilot Purchase revenues and expenses associated with offering the RNG Pilot program, including RNG purchases and administrative and marketing expenses. The Company may petition the Commission to annually adjust the RNG Price depending on the cumulative balance of revenues received and expenses incurred. <u>The Company will undertake to bear any costs that are not recovered from participating customers.</u>

### *3. New policies, Legislation and the Company's Pilot Program*

In the Company's Reply Comments, the Company stated the following:[46]

> The Company continues to request that the Pilot operate for an initial term of five years. During that time, if new policies or legislation emerge to encourage the development of the RNG industry in Minnesota, the Company may petition the Commission to recover Pilot costs as a ratepayer expense. Similarly, if under-recovered program costs become unreasonable or if Pilot participation does not materialize as expected, the Company may stop Pilot enrollment and seek to terminate the program before the end of the five-year pilot period.

The Department clarifies that, if the Company petitions the Commission to recover Pilot costs as a ratepayer expense, any such recovery would be on a prospective basis and not on a retroactive basis given the Company's commitment to "<u>undertake and bear any costs that are not recovered from participating customers".</u>

## III. DEPARTMENT CONCLUSIONS

The Department appreciates CenterPoint's efforts to provide an opportunity for its customers who are concerned about reducing greenhouse gas emissions and/or encouraging domestic energy use. The Company's proposal is innovative, and provides stakeholders an opportunity to provide valuable input regarding how Minnesota can further its greenhouse gas reduction goals in a non-electric industry sector.

The Department concludes, based on all the information available at this time in the record, that the proposed Pilot is admirable in terms of enhancing customer choice and environmental protection efforts. However, the proposal needs further development from a wider range of participants. An important question to address is whether Minnesota should develop its own system of awarding credits for using RNG for non-transportation purposes. To address this and other issues, the Department recommends that the Commission require CenterPoint to host a workshop to explore the use of RNG for non-transportation uses. Similar to the efforts that occurred prior to the establishment of M-RETS for renewable energy credits for electric utilities, such a workshop should invite other governmental entities having expertise in this specific area (e.g. the Minnesota Pollution Control Agency, Minnesota Department of Agriculture), and address various issues, such as information about potential sources of RNG in Minnesota, how production and use of RNG could be tracked, how double-counting would be prevented,

[46] CPE Reply Comments at page 11.

whether and how any credits should be established in Minnesota for use of RNG in a non-transportation end-use, etc. Such information would be vital before moving forward with a pilot

Until then, the following issues lead to the conclusion that CPE's proposed Pilot is premature:

- the lack of a credit system for non-vehicle-use RNG;
- the lack of any policies, either at the state or federal level, to promote RNG use in the residential, commercial, or industrial sectors that could lead to a credit system for non-vehicle-use RNG, as acknowledged by the Company;
- CPE has not shown that it would be reasonable for the Company's ratepayers to pay significantly more for the environmental attributes of RNG, particularly when CPE's proposed end uses of the RNG Pilot would not qualify for these environmental attributes or credits; and
- CenterPoint has not adequately addressed the relationship with its affiliate, once it is certified by the EPA.

As a result, the Department recommends denial at this time of the Company's Petition as filed and as modified by the Company.

The Department notes that the following modifications to CPE's proposed RNG Pilot Program in its Reply Comments improved the proposal:

- The Department concludes that CPE's Reply Comments modified proposal to assign the premium cost of excess RNG supply shifts the unfavorable RNG gas cost risks away from non-participant customers and reasonably resolves the issues the Department raised concerning the use of the Purchased Gas Adjustment mechanism.

- The Department concludes that CPE's Reply Comments modification to withdraw its deferred accounting request for unrecovered administrative and marketing costs and to allocate any unrecovered A&M costs on a current basis to its shareholders is reasonable.

- The Department concludes that CPE's Reply Comments modification to withdraw its request to include a shareholder return is reasonable.

- The Department reviewed the information and concludes that the Company's proposed accounting for the RNG Pilot as modified is reasonable.

- The Department concludes that CPE's Matching Period and refund approach to remedy RNG supply shortfalls appears reasonable; and CPE's assignment to shareholder's the ownership of excess RNG environmental attribute, to the extent the cost risk for any excess RNG supply attributes continue to be borne by the shareholders, is reasonable.

- The Department concludes that CPE's inclusion of a more in-depth comparison in its Reply Comments of the Company's proposal to other utilities' existing RNG programs currently in operation reasonably satisfied the Department's request for such an analysis.

- The Department does not oppose a 5-year pilot term and concludes that the proposed RNG Program Year period (July 1 – June 30) is reasonable.

- The Department does not oppose the proposed September 15 filing date for CPE's Annual Pilot Program evaluation and report, nor does the Department at this time oppose CPE's approach to allow a revised annual RNG Pilot rate change to go into effect, subject to refund, on the date of the annual Pilot report and evaluation filing. However, the Department recommends some additional information be added to CPE's drafted program tracker included as Attachment B to CPE's Petition, as detailed in Section J of these Response Comments.

However, these improvements were not able to address the concerns listed above. The workshop recommended above would be an important step regarding use of RNG for non-transportation purposes. The Department also recommends the following improvements for a future proposal:

- CPE should include a discussion and analysis in its forthcoming general rate case filing, and in any future filings involving RNG, on: (1) the net benefit potential for use of RNG with environmental attributes in its CNG-fueled fleet, (2) any further developments of CPE affiliate's pursuit as a RIN generator, (3) how the affiliate, as an approved RIN generator, may benefit from CPE's proposal and serve CPE in future, (4) what costs should be allocated to its affiliate, and (5) whether its affiliate, as an approved RIN generator, would be expected to serve CPE in future should the utility begin to use RNG in its fleet vehicles.

- CenterPoint should include an additional schedule to be filed in its Annual Purchased Gas Adjustment True-Up report filing that reports information relevant to the RNG supply included in the general gas portfolio, as detailed in Section B of these Response Comments.

- CPE should limit the Program Charge rate (the component rate of the Pilot Charge designated to A&M costs) to the recovery of incremental external costs.

- CPE should explain how it will remedy RNG Supply pricing changes that diverge from the proposed year-long Pilot Charge tariffed rate, in order to ensure that ratepayers participating in the pilot are charged rates that reflect what the Company pays for the RNG supply.

- CPE should correct its draft marketing materials and revisions to CPE's proposed tariff language, as discussed in Section K.1 and Section K.2, respectively, of these Response Comments.

/ja

# State of Minnesota
## Department of Commerce

**Utility Information Request**

Docket Number: G-008/M-18-547 Date of Request: 3/14/2019
Requested From: CenterPoint Energy Minnesota Gas Response Due: 3/25/2019

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 053 | Topic: Rate Case Adjustments for RNG Pilot Program<br>Reference(s): CPE Reply Comments, Exhibit 2.<br><br>In the event the RNG Pilot is approved and implemented as proposed in CPE's Reply Comments, and the Company files a general rate case while the RNG pilot is in place during a base year, please identify all of the RNG Pilot related adjustments the Company would propose to its base year to develop its rate case test-year.<br><br>**Response:**<br><br>CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (the "Company"), would make an adjustment to exclude Pilot costs and revenues from its base year. All RNG program specific accounts shown in the Company's *Reply Comments*, Exhibit 2, would be excluded from the test year. |

Response By: Erica Larson
Title: CIP Regulatory Analyst
Department: Regulatory
Telephone: 612-321-4334

# State of Minnesota
## Department of Commerce

### Utility Information Request

Docket Number: G-008/M-18-547 Date of Request: 3/14/2019
Requested From: CenterPoint Energy Minnesota Gas Response Due: 3/25/2019

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 049 | Topic: FERC Accounts 242.0 and 186.0<br>Reference(s): CPE Reply Comments, Exhibit 2, Scenarios 1 and 2.<br><br>For the accounting activity "Gas flows to PGA at non-RNG price," recorded in the FERC Account 242.0 (186.0) Deferred Debit (Miscellaneous Liability), please identify and explain to what FERC (and CPE-charted) accounts/subaccounts these amounts are eventually closed.<br><br>**Response:**<br><br>Amounts debited or credited to CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas ("CenterPoint Energy" or the "Company"), account numbers 221143 and 147015 represent current year gas costs and revenues and correspond with FERC accounts 2420 and 1860, which represent regulatory asset or liability. All current year non-RNG gas costs, not just amounts associated with the Pilot, are recorded to account numbers 221143/147015 and then moved at the end of the gas year to CenterPoint Energy account numbers 221142 and 147025, respectively, which also correspond with FERC accounts 2420 and 1860. RNG costs included (at the non-RNG weighted average cost of gas) in account numbers 221143/147015 will be treated like any other gas cost the Company includes in the Purchase Gas Adjustment mechanism.<br><br>Under the revised Pilot proposal, amounts charged or credited to the current year gas cost accounts for RNG will relate only to Pilot program activity in the current month. In other words, the amounts charged to accounts 221143/147015 could be considered "closed" each month. The proposal as revised in CenterPoint Energy's *Reply Comments* would not create situations analogous to the situation described in the *Petition*, Attachment |

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D, Example 4, where the PGA was credited due to a combination of events occurring in the current month and previous months.

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# State of Minnesota
## Department of Commerce

**<u>Utility Information Request</u>**

| | |
|---|---|
| Docket Number: G-008/M-18-547 | Date of Request: 3/14/2019 |
| Requested From: CenterPoint Energy Minnesota Gas | Response Due: 3/25/2019 |

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 051 | Topic: Customer Bill Format – RNG Supply Shortage<br>Reference(s): CPE Reply Comments, Exhibit 2, Scenario 2.<br><br>Please explain how the Pilot-enrolled customer's monthly bill will appear in the months when this scenario occurs, which is, there is an RNG supply shortage compared to the enrolled customers' purchased/demand amount.<br><br>In the response, specifically address what the reported "price" and "quantity" of RNG on customers' monthly bill for the period would be based upon when an RNG supply shortage occurred, given that, per Footnote 46, the Company may possibly obtain RNG to fulfill this excess demand in future yet-to-be-determined procured price.<br><br>Also, please explain what, if any, consequential future billing month impact that may occur, specifically to the reported "price" and "quantity" of RNG on customer bill upon the satisfaction of any prior month's RNG supply shortfall.<br><br>**Response:**<br><br>A supply shortage will not affect a participating customer's bill in the current month. For example, if the tariff specifies that the Pilot Charge is $3.89/therm, and a given customer has subscribed for $10 of RNG, CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (the "Company"), will charge the customer $10 and show 2.6 therms of RNG on the bill (assuming that the customer's total natural gas use in the month was more than 2.6 therms). The bill in the current month will not reflect that the Company did not purchase enough RNG to supply all participating customers. |

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However, if the Company is unable to make up the shortfall before the end of the applicable matching period, the customer will receive a refund in proportion to the amount of shortfall. Consider, for example, the situation described in the Company's *Reply Comments*, Exhibit 2, Scenario 2. In that scenario, the Company is 200 Dth short on RNG and has only purchased enough RNG to supply approximately 92.59% of participating customer subscriptions. If we assume that Scenario 2 happened in July 2021, the Company will attempt to purchase an extra 200 Dth of RNG (assuming that the Company has not been oversupplied in a prior month within the matching period). If the Company is unable to make up the 200 Dth RNG shortfall before the end of March 2022, the Company will refund participating customers in proportion to the shortfall. The Company would also provide an explanation of the refund to affected customers along with the refund.

For example, assume that a participating customer was subscribed for $10/month of RNG in July 2021 at a time when the Pilot Charge is $3.89/therm. The customer was therefore subscribed for 2.6 therms of RNG ($10/month ÷ $3.89/therm = 2.6 therms) per month. If the Company was undersupplied then the customer should receive a refund equal to the difference between the cost of RNG and the non-RNG weighted average cost of gas ("WACOG") for a proportional share of the subscribed 2.6 therms. The following table illustrates how the refund is would be calculated:

| | | |
|---|---|---|
| 1 | Subscribed quantity ($10/month ÷ $3.89/therm) | 2.6 therms |
| 2 | Therms actually purchased | 2.4 therms |
| 3 | Shortfall | 0.2 therms or 7.7% (0.2 ÷ 2.6 = 7.7%) |
| 4 | Pilot Charge per therm (including marketing/ admin) | $3.89/therm |
| 5 | Illustrative non-RNG WACOG | $0.30/therm |
| 6 | Difference between RNG and non-RNG cost | $3.59 (line 4 less line 5) |
| 7 | Refund | $0.68 (0.2 therms from line 3 x line 6) |

The Company notes that amounts in the above table may be affected by rounding.

The scenario in which the Company is undersupplied with RNG and unable to remedy that undersupply within the matching period is unlikely. The Company anticipates being oversupplied with RNG through much of the Pilot program. As described in response to Department Information Request

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No. 55, the per therm Pilot Charge be revised annually as part of the Pilot evaluation. The Company does not plan to request modifications to the Pilot Charge mid-year even if the Company's actual monthly RNG commodity costs change.

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# State of Minnesota
## Department of Commerce

**Utility Information Request**

Docket Number: G-008/M-18-547 Date of Request: 3/14/2019
Requested From: CenterPoint Energy Minnesota Gas Response Due: 3/25/2019

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 054 | Topic: Matching Period for RNG Supply/Demand Relative to PGA year<br>Reference(s): CPE Reply Comments, Exhibit 2.<br><br>A. Please clarify Footnote 46 by explaining whether the proposed Matching Period is a contiguous 21-month period to resolve any calendar year shortage. For example, if an RNG supply shortage occurred in November 2021, does the Company's Matching Period for this November 2021 shortage stretch from July 2020 through March 2022, without regard to purchased gas year ending in June 2021?<br><br>B. Please reconcile Footnotes 46 and 47 by clarifying the period of time which makes up the "program year" and the proposed timing for issuing any refunds for previous month's shortages, and by explaining the time period usable to match RNG supply with purchases.<br><br>**Response:**<br><br>A. Yes, the proposed matching period is a contiguous 21-month period. This matching period is intended to mirror the vintage requirements of eligible renewable electric generation suggested in the Green-e Framework for Renewable Energy Certification. See *Petition* at 13.<br><br>B. The program year will run from July to the following June. Refunds will be calculated and paid after the end of a program year for any previous months of shortage for which the time has elapsed to satisfy participant purchases. So, for example, if CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (the "Company"), was short on RNG in December 2021, the applicable matching period would expire in March 2022, and customer refunds, if necessary, would be calculated |

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and paid after the end of the program year (June 2022) in conjunction with the September 15, 2022, annual program evaluation. Likewise, if the Company was short on RNG in January 2022, the applicable matching period would end in March 2023, and customer refunds, if necessary, would be calculated and paid in conjunction with the next annual program evaluation report on September 15, 2023.

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## Department of Commerce

**Utility Information Request**

Docket Number: G-008/M-18-547 Date of Request: 3/14/2019
Requested From: CenterPoint Energy Minnesota Gas Response Due: 3/25/2019

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 050 | Topic: Environmental Attribute Assignment<br>Reference(s): CPE Reply Comments, Exhibit 2, Scenario 1.<br><br>Please discuss and explain the assigned ownership of any RNG environmental attributes associated with excess RNG supply, and how the assignment differs, if at all, from attribute ownership of the RNG supply consumed by voluntary subscribers to the RNG Pilot.<br><br>**Response:**<br><br>CenterPoint Energy Resources Corp.'s, d/b/a CenterPoint Energy Minnesota Gas (the "Company"), will purchase and then retire the environmental attributes associated with the RNG sold to voluntary participants. If the Company purchases more RNG/environmental attributes than are sold to voluntary participants, the Company may seek to resell the excess. If the Company is able to sell excess RNG/environmental attributes, it will credit the program tracker with those revenues. Given the small volumes of RNG involved, and the lack of a market for the environmental attributes of RNG without the commodity gas, it may not be possible for CenterPoint Energy to resell excess RNG/environmental attributes. |

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# State of Minnesota
## Department of Commerce

**<u>Utility Information Request</u>**

| | |
|---|---|
| Docket Number: G-008/M-18-547 | Date of Request: 3/14/2019 |
| Requested From: CenterPoint Energy Minnesota Gas | Response Due: 3/25/2019 |

Analyst Requesting Information: Dorothy Morrissey/Sachin Shah

Type of Inquiry: Other

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

| Request No. | |
|---|---|
| DOC 055 | Topic: RNG Price Change Frequency/Tariff Revisions<br>Reference(s): CPE Reply Comments, Footnote 32 and Exhibit 2.<br><br>A. Please identify and explain the triggers that would lead to RNG Pilot program tariff pricing revisions. Include a discussion on CPE's proposed process for such tariff updates.<br><br>B. Please discuss the frequency that the tariff updates to RNG commodity price could occur.<br><br>C. Please discuss the relative frequency that the tariffed Program Charge (the 10% portion of Pilot Charge) could change.<br><br>D. Please explain whether the Program Charge will be subject to revision, on the occasion when RNG commodity price is updated, for the purpose of maintaining the goal that at least 90 percent of Pilot Charge reflect the RNG commodity recovery.<br><br>**Response:**<br><br>CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas (the "Company"), intends to propose changes to the RNG Pilot Charge as part of its annual Pilot evaluations. The Company anticipates changing prices primarily in response to changes in the cost of RNG commodity. As described in the *Petition*, pp. 11-12, the Company will use 90% of the Pilot Charge to offset RNG commodity costs and up to 10% of the Pilot Charge may be used for administrative and marketing costs ("Program Charge"). The Company anticipates that its requests to modify the RNG Pilot Charge will be intended primarily to set its tariff price so that 90% of the Pilot |

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Charge approximately equals the Company's forecasted per therm RNG commodity price. The Program Charge will be modified at the same time to maintain the 90%/10% ratio.

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# CERTIFICATE OF SERVICE

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

Minnesota Department of Commerce
Response Comments

Docket No. G008/M-18-547

Dated this 10th day of April 2019

/s/Sharon Ferguson

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| Steven | Clay | Steven.Clay@CenterPointEnergy.com | CenterPoint Energy Minnesota Gas | 505 Nicollet Mall<br>Minneapolis, MN 55402 | Electronic Service | No | OFF_SL_18-547_M-18-547 |
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