

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

In the Matter of an Application by CenterPoint
Energy Resources Corp. d/b/a CenterPoint
Energy Minnesota Gas For Authority to
Increase Natural Gas Rates in Minnesota

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FINDINGS OF FACT,
CONCLUSIONS, AND ORDER

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A. Revenue Allocation of the ICCC Class

Individual Curtailment and Competitive Circumstances (ICCC) customers are a subset of the Small Volume Dual Fuel class; these customers pay a premium to limit the circumstances under which they can be curtailed, while still receiving the discount applicable to interruptible service. Since none of these customers have been curtailed in the past ten years, the Department expressed concern that their cost allocations might not reflect the full cost of providing what appears to be close to firm service.

The Department conducted an analysis of their cost of service, which showed that ICCC rates exceeded the cost of service, complied with applicable tariffs, and therefore did not require immediate adjustment. To ensure that this service is fairly priced, however, the Department recommended requiring the Company, in its next rate case, to file an analysis addressing (1) the reasonableness of allocating capacity-related costs to this class of customers; (2) each capacity-related cost that is avoided by the ICCC customers taking interruptible service; and (3) each capacity-related charge that would be incurred if an ICCC customer switched to firm service.

The Administrative Law Judge concurred in this recommendation. The Commission concurs and will so require.

B. Presenting Inter-Class Revenue Allocation Data

In this rate case filing the Company frequently combined smaller customer classes into one class when reporting rate design and revenue allocation information. Particularly, the Large Volume Firm, Dual Fuel Sales, and Large Volume Transportation classes were often combined, as were the Small Volume Dual Fuel Sales Service and Small Volume Dual Fuel Transportation Service classes.

To ensure accuracy and clarity, it is important that each customer class listed in the Company's tariffs be identified and treated separately, and the Commission will require this in the Company's next rate case.

XXI. Decoupling

A. Introduction

In its initial filing in this proceeding, the Company proposed a Revenue Decoupling Rider tariff.³³ Decoupling is a regulatory tool designed to separate a utility's revenue from changes in energy sales.³⁴

Under traditional rate regulation, natural gas utility revenues are affected by the utility's ability to control costs and by sales made to accommodate customers' energy consumption. Ordinarily, then, utility revenues increase as sales increase. Traditionally regulated utilities therefore have an

³³ Initial Filing – Volume 1 – General Rate Petition, Proposed Tariffs, Proposed Original Page 28 – 28.a (August 2, 2013).

³⁴ Minn. Stat. § 216B.2412, subd. 1.

incentive to promote (or not diminish) incremental sales of natural gas. Put another way, this “throughput incentive” discourages utilities from promoting energy conservation.

A properly implemented decoupling mechanism aligns the utility’s interests with the public’s interest in energy efficiency by limiting or severing the connection between unit sales of natural gas and revenue. Practically, decoupling is accomplished by periodically adjusting the utility’s rates in response to deviations in sales from sales forecasts. This increases the significance of sales forecast accuracy for ratepayers, which is addressed elsewhere in this order.

Decoupling sales and revenues may be achieved through “full” or “partial” decoupling mechanisms. With full decoupling, departures from sales forecasts for any reason are accounted for and subject to true-up. Partial decoupling functions similarly, but excludes some sales and forecasts divergences from true-up, such as those attributable to weather. The Company proposed and supports a full revenue decoupling mechanism.

Minnesota Statutes § 216B.2412 authorizes the Commission to approve pilot decoupling programs. As required by the statute, the Commission established standards and criteria for decoupling pilot proposals in June 2009.³⁵ The Commission has previously approved decoupling pilot programs for the Company in 2010 (partial decoupling),³⁶ and for Minnesota Energy Resources Corporation in 2012 (full decoupling).³⁷ The Company’s partial decoupling pilot expired on June 30, 2013.

B. Positions of the Parties

1. The Company

According to the Company, the purpose of the proposed Revenue Decoupling Rider was to reduce the Company’s financial disincentive to promote energy efficiency and conservation “by severing the link between the recovery of [the Company’s] non-gas distribution costs and the volume of gas delivered to its small volume firm customer rate classes.” As initially proposed, the Revenue Decoupling Rider would have applied to customers in the Company’s residential, small volume commercial and industrial, and small volume firm transportation customer classes.

In response to Department concerns raised during the contested case proceeding, the Company agreed to certain modifications of its initial Revenue Decoupling Proposal. These modifications were:

- i. a 10% cap on non-gas margin revenue, after removing conservation costs, for a decoupling adjustment on occasions of under-recovery during an evaluation period;

³⁵ *In re: a Commission Investigation into the Establishment of Criteria and Standards for the Decoupling of Energy Sales from Revenues*, Order Establishing Criteria and Standards to be Utilized in Pilot Proposals for Revenue Decoupling, Docket No. E,G-999/CI-08-132 (June 30, 2008).

³⁶ *In re: an Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota*, Findings of Fact, Conclusions of Law, and Order, Docket No. G-008/GR-08-1075 (January 11, 2010).

³⁷ *In re: the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Findings of Fact, Conclusions, and Order, Docket No. G-007,011/GR-10.977 (July 13, 2012).

- ii. broadening the decoupling proposal to apply to all customer classes except market-rate customers; and
- iii. an agreement concerning a proposed evaluation plan for the proposed Revenue Decoupling Rider.

But in its brief to the ALJ after the record closed, the Company withdrew its support for decoupling in this case. The Company stated that it viewed the possibility of partial decoupling—which the Department was advocating—as a negative result for the Company and its customers in light of its experience with the Company’s recently expired partial-decoupling pilot. Absent widespread support for its full decoupling proposal, and because it would prefer no decoupling mechanism to a partial decoupling mechanism, the Company asserted that it no longer sought approval of any decoupling mechanism.

In its oral argument to the Commission, however, the Company stated that it still supports full decoupling, and stands by its decoupling-related testimony.

2. The Department

The Department initially supported the premise that both full and partial decoupling serve the goal of reducing the Company’s disincentive to promote energy savings.³⁸ In the course of the contested case, the Department recommended revisions to the Company’s proposed full Revenue Decoupling Rider, and continued to support reinstatement of the Company’s expired partial decoupling pilot as an alternative to the Company’s proposal.

In its Exceptions, the Department stated that the options to order no decoupling, partial decoupling, or full decoupling were properly before the Commission. But the Department construed the Company’s position late in the contested case proceeding—supporting either full decoupling or no decoupling—to imply that the Company lacked a sufficient conservation disincentive to warrant decoupling. The Department ultimately recommended that the Commission direct interested parties to further investigate the effects on ratepayers of full, partial, and no decoupling.

According to the Department, if a decoupling mechanism is approved in this case, the Commission should approve partial decoupling “if the primary purpose of the decoupling mechanism is to remove [the Company’s] disincentive to investing in energy conservation,” and should approve full decoupling only if the Commission seeks to serve the energy conservation goal and a revenue stabilization goal.

3. The Office of the Attorney General

The OAG opposed the Company’s full decoupling proposal, and accepted the Company’s withdrawal of its proposal. At oral argument, the OAG opposed Commission action on decoupling proposals in this proceeding in light of the Company’s withdrawal. But during the contested case proceeding the OAG opposed the proposal.

The OAG expressed concern about decoupling’s effect on customers’ understanding of their bills and about customer perception of the relationship between decoupling and energy conservation.

³⁸ Limited Exceptions of the Minnesota Department of Commerce to the ALJ Report, 7 (April 21, 2014).

Because decoupling adjustments are not made close in time to the events that cause them, the OAG believes that the decoupling proposal would send mixed price signals to customers. And, because decoupling surcharges can arise from sales decreases regardless of the reason, the OAG expressed concern that customers' mindset toward conservation could be soured.

The OAG made several recommendations for modifications to the Company's proposal if the Commission were to approve decoupling in this case. Among them, the OAG recommended that the Commission authorize the proposal as a pilot program, and that the proposal extend to all customer classes.³⁹

4. The Environmental Intervenors

The Environmental Intervenors support the Company's proposal to implement full decoupling, with modifications recommended by the Department and agreed to by the Company. The Environmental Intervenors assert that the record supports a determination that a full decoupling proposal is reasonable and would serve the purposes of Minn. Stat. § 216B.2412.

C. The Recommendation of the Administrative Law Judge

The ALJ's decoupling-related findings and conclusions appear in paragraphs 720 – 769 of the report. The ALJ concluded that the record lacked evidence to support implementing a partial decoupling mechanism, and recommended that the Commission either exclude a decoupling mechanism from its final order (because the Company had withdrawn its request) or implement a full decoupling mechanism, either outright or as a pilot program.

Although the Company withdrew its support for decoupling after the close of the evidentiary record, the ALJ made 15 specific findings in support of her alternative recommendations to nevertheless order decoupling in this case. Among the findings, the ALJ found that that the full decoupling proposal "would reduce the Company's disincentive to promote energy efficiency," and that partial decoupling "has produced at least one example of an irrational result . . . and could easily do so again in the future if partial decoupling is re-implemented."

D. Commission Action

The Commission adopts the ALJ's analysis, findings, and conclusions found in paragraphs 720 – 769, with the modifications detailed below. Specifically, the Commission will order that the Company implement as a pilot program its full decoupling proposal, modified in a manner consistent with its surrebuttal testimony.

There is no dispute among the parties, and the Commission so finds, that the record in this proceeding presents the Commission a range of options with regard to revenue decoupling. Before the Company withdrew its decoupling proposal, the parties presented testimony concerning full and partial decoupling alternatives. The result is a robust record, adequate to support a Commission determination on this issue. The Commission agrees with the ALJ and the parties that approving a decoupling mechanism would be a valid exercise of the Commission's authority.

³⁹ Direct Testimony of Vincent C. Chavez, 57 – 58 (November 26, 2013).

The Commission concludes that on this record, directing the modified full-decoupling proposal to be implemented as a pilot program best serves the Commission's statutory mandates. These mandates include establishing just and reasonable rates that to the maximum reasonable extent encourage energy conservation,⁴⁰ and assessing the merits of rate decoupling to promote energy efficiency and conservation.⁴¹

The modified decoupling proposal incorporates changes to accommodate certain Department and OAG criticisms of the Company's initial proposal. The ALJ found that:

737. The Department initially had four areas of disagreement with the Company related to its proposed RD Rider. Three of the issues were resolved between the Company and the Department. The resolved issues are:
- a. The Company agreed to a ten percent cap on non-gas margin, after removing conservation costs, for a decoupling adjustment in the case of an evaluation period where an underpayment was determined. This was a change from the original proposal of five percent on the total volumetric charge, and is consistent with the proposal approved by the Commission in the MERC decoupling pilot program.
 - b. The Company agreed to broaden its initial proposal for full decoupling to include [. . .] all other classes, except its market rate classes.
 - c. The Company and the Department came to an agreement regarding a proposal evaluation plan for the proposed full RD Rider.⁴²

The only remaining dispute between the Company and the Department was whether the Department would support full decoupling or would only recommend partial decoupling.⁴³

The Department stated its final position on decoupling in the alternative: it recommended further investigation of decoupling's impact on ratepayers or, if the Commission were to approve a decoupling mechanism in this case, the choice between full or partial decoupling should be guided by the Commission's goals for the decoupling program. According to the Department, the Commission should impose full decoupling *only* if the Commission has a revenue stabilization goal for the Company. The Commission agrees with the Department's goal-oriented approach, but reaches a different conclusion.

The Commission agrees with the Department that selecting a decoupling mechanism should be guided by the Commission's statutory and policy goals concerning such programs. In this instance,

⁴⁰ Minn. Stat. § 216B.03.

⁴¹ Minn. Stat. § 216B.2412.

⁴² (Footnotes omitted.)

⁴³ ALJ's Report, ¶ 738; *see also* Limited Exceptions of the Minnesota Department of Commerce to the ALJ Report, 8.

these goals include the statutory goal for pilot decoupling programs: to assess the merits of a rate decoupling strategy to promote energy efficiency and conservation.⁴⁴ This goal can be served best through a decoupling program that offers new information about decoupling's effectiveness.

The Commission has previously approved two decoupling pilot programs. One partial decoupling program was implemented by the Company from 2010 to 2013. The other, a full decoupling program implemented by Minnesota Energy Resources Corporation is just now underway. The Commission concludes that the modified full decoupling proposal in this proceeding is an appropriate addition to the list of pilot programs intended to aid the Commission in assessing rate decoupling's merits as a regulatory tool.

The modified full decoupling proposal serves the relevant statutory goals by differing from both previously approved decoupling programs. This program applies to more customer classes than the MERC decoupling pilot, and it will involve a more extensive customer education effort than has previously been attempted in Minnesota. The three-year pilot term, the maximum allowed by statute, will allow the Commission to evaluate decoupling's impact over three different heating seasons. Implementing full decoupling as a pilot project, therefore, allows additional assessment of the effects of decoupling, which is recommended by the Department and authorized by the revenue decoupling statute.

In light of concerns about the possible effects on customers, including confusion about their bills and uncertainty about the relationship between decoupling and energy conservation efforts, the Commission will delay the implementation until July 1, 2015. Delayed implementation will allow the Department, the Company, and other interested stakeholders to develop and implement a plan to help customers better understand the goals and functions of decoupling. This education and outreach program will mitigate potential customer confusion related to decoupling's effects on customer bills and its relationship to customer energy conservation.

The decoupling pilot adequately avoids adverse ratepayer impact through the parties' careful attention in this case to the Company's sales forecast, and by including a 10% cap on underpayment-related decoupling surcharges. Together, these factors serve to constrain annual swings in rates that might otherwise arise due to weather volatility. As discussed in the Commission's order establishing standards for pilot decoupling programs, the Commission may take appropriate action if it determines that the pilot is harming ratepayers or failing to meet objectives.

Finally, the Commission disagrees with the Department's contention that the Company's disfavor for partial decoupling, or its change in positions as this case developed, implies that the Company lacks a throughput incentive. The Department's inference is unsupported by a preponderance of the record evidence. Conversely, the ALJ found that full decoupling "would reduce the Company's disincentive to promote energy efficiency." The Commission agrees with this finding. The Company established that, more likely than not, it has a throughput incentive, and decoupling will fully separate the Company's revenue from changes in energy sales. The Commission concludes that full decoupling has substantial potential to align the Company's interests with the public's interest in energy efficiency.

⁴⁴ Minn. Stat. § 216B.2412, subd. 3.

The decision to implement full decoupling as a pilot program is consistent with the ALJ's detailed findings and considered recommendations on this issue. It is also consistent with the goals and statutory mandate of the Commission. The Commission will direct that the pilot program be in effect for three years and start on July 1, 2015. Before the program goes into effect, the Commission will require the Company to work with interested stakeholders to develop proposals concerning evaluation reports and an education and outreach program concerning the goals and operation of revenue decoupling.

XXII. Customer Charges for Residential and Small Commercial and Industrial Customers

A. Introduction

The monthly customer charge is a fixed monthly charge assessed without regard to usage levels. It is designed to help recover fixed customer-related costs such as the cost of meters, service lines, meter reading, and billing.

The Company's current monthly residential customer charge is \$8 per month. According to the Company's Class Cost of Service Study, the fixed monthly cost of serving a Residential class customer is \$21.96. For the Small Volume Commercial and Industrial customer classes, the Company's current monthly charge and fixed monthly cost-to-serve are as follows:

	Current Customer Charge (per month)	Monthly Fixed Cost to Serve⁴⁵
C&I – A	\$12.00	\$22.71
C&I – B	\$18.00	\$26.51

B. Positions of the Parties

1. The Company

CenterPoint proposed to increase the monthly customer charges for residential customers to \$15.00 to move the charge closer to the CCOSS average cost of service. The Company argued that its current residential customer charge of \$8 collects 29% of the class's fixed costs, while its proposed increase would result in customer charges collecting 61% of those costs. It identified three possible advantages for customers arising from an increased customer charge: (1) moderated bill volatility month-to-month and reducing bills in high-usage months; (2) reduced effect of weather volatility on customers and the Company; and (3) improved intra-class rate design equity.

The Company asserted that its proposals represent a large but justified movement towards cost, and argued that the proposed increase would not result in rate shock because the impact on affected customers' total bills would be negligible or nonexistent. The Company also argued that the proposed increase in customer charges poses little risk of interfering with conservation incentives because a large proportion of residential customer bills will still be determined by usage.

The Company also proposed increasing the Small Volume Commercial and Industrial Class customer charges. It proposed to increase the C&I – A class to \$15, and the C&I – B class to \$21.

⁴⁵ According to the Company's accepted Class Cost of Service Study 2.