

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: October 17, 2013 Agenda Item # 3

Company: CenterPoint Energy

Docket No. G-008/M-13-333

In the Matter of the Petition of CenterPoint Energy for Approval of a
Miscellaneous Tariff Change

Issue(s): Should the Commission allow the Company to withdraw its petition?

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Relevant Documents

CenterPoint Filing..... April 30, 2013
Department Comments May 30, 2013
CenterPoint Reply Comments..... June 10, 2013

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Statement of the Issue

Should the Commission allow the Company to withdraw its petition?

Background and Party Positions

CenterPoint Energy

On April 30, 2013, CenterPoint Energy (CPE) filed a petition for a miscellaneous tariff change to its Commercial/Industrial extension tariff. The Company proposed to modify its Commercial/Industrial extension tariff, Section VI, page 5, part 4.04, Economic Feasibility by adding the following paragraph:

For Commercial/Industrial main line extension projects and service line extension projects where the customer's estimated annual sales exceed 100,000 therms, CenterPoint Energy will require the customer to guarantee the estimated annual sales through a contractual commitment not to exceed 10 years.

According to CPE, the proposed tariff modification is necessary to protect ratepayers from a potential situation where it is estimated that the customer will use a certain amount of natural gas, when in fact the customer actually uses a lesser amount. It is not always possible to accurately predict how much gas a customer will use before it begins to take service, yet the cost justification formula calculates the allowable investment in advance of construction. Thus, the proposed tariff modification obligates larger C&I customers (100,000 therms of usage per year or more) to actually use or pay a minimum volume charge for the estimated amount, thereby reducing the risk for the ratepayers that the extension of service will not be economically feasible.

CPE stated there are very few new customers being added whose annual usage is 100,000 therms or more. There were 6 such accounts in 2011 and 4 accounts in 2010.

Department of Commerce

On May 30, 2013, the Department filed comments recommending that the Commission deny CenterPoint Energy's tariff change request.

The Department expressed concern that CenterPoint's proposal would shift the risk to ratepayers if the Company chooses to extend natural gas service to a new C&I customer expecting the customer to use more than 100,000 therms annually but the actual natural gas use falls short of the estimated volume.

According to the Department, the question here is the extent to which new customers, existing

customers and the utility bears the risk of the utility's decisions. The Department stated the following ratemaking principles are applicable: 1) existing customers should be protected from subsidizing new customers, 2) the utility must make prudent decisions, based on available information, in deciding whether or not to extend new service and whether or not to require the new customer to pay an additional charge for the service extension, and 3) the new customer should have clear information about the costs they will pay as a result of the service extension.

The Department argued that the ROR included in the overall rates set for utilities reflect the level of risk utilities face. The Department concluded that CenterPoint has adequate protection under its existing tariff to ensure that new customers pay for the cost of the service extension. The Department also concluded that there is no reason to provide further protection to CenterPoint for the Company over-forecasting how much energy a new customer will use, since the Company is adequately compensated for its risks.

The Department further concluded that CenterPoint is the appropriate party to bear the risk of the actual annual consumption volume falling short of the estimated annual consumption volume used in the Cost Justification Formula for C&I extensions. It is CenterPoint that currently and appropriately bears the risk through the possibility of having the costs disallowed in a subsequent rate case if it extends service that was not economically feasible and does not charge more to the new customer.

The Department also stated that the "take-or-pay" nature of the proposed addition would negatively affect the incentive for such new C&I customers to conserve their use of natural gas. CenterPoint's filing would encourage the affected C&I customers to use more energy than would otherwise be the case. Further, it would discourage such customers from engaging in conservation measures that may bring their annual consumption below 100,000 therms.

CenterPoint Energy

On July 10, 2013, CPE filed reply comments stating that when the initial filing was made, the Company did not anticipate that the request would lead to controversy as it was simply intending to provide additional options when extending service to new customers. The proposal was made in order to better meet customer requests on larger projects where it is not possible to verify or have certainty regarding the sales estimate used in the Economic Feasibility calculation, yet the customer is willing to contractually agree to the estimate they propose.

CenterPoint Energy stated it does not believe that the proposal would discourage the customer from conserving natural gas, as suggested by the Department.

CPE stated it believes that the objectives of mitigating risk for all concerned while promoting economic vitality are worthy objectives. The Company would rather focus its energies on solutions to meet these economic development needs. Therefore, it requested Commission approval to withdraw its request.

Staff Analysis

The Company is the party that has requested withdrawal of the petition. The Department has not expressed opposition to the withdrawal of the petition. Staff is not aware of any reason that the matter should not be withdrawn.

Decision Alternatives

1. Allow CPE to withdraw its petition.
2. Approve the requested tariff change.
3. Deny the requested tariff change.

Recommendation

Staff recommends alternative 1.