

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Application of CenterPoint
Energy Minnesota Gas, a Division of
CenterPoint Energy Resources Corp., for
Authority to Increase Natural Gas Rates in
Minnesota

ISSUE DATE: December 21, 2005

DOCKET NO. G-008/GR-05-1380

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On November 2, 2005, CenterPoint Energy Minnesota Gas, a division of CenterPoint Energy Resources Corp. (CenterPoint) filed a petition to increase the amount it charges for natural gas service. CenterPoint seeks to increase revenues by approximately \$40.9 million, or 2.4%. If the Commission suspends the rate increase in order to conduct an evidentiary hearing, CenterPoint asks that the Commission authorize an interim rate increase of 2.07 % until the case is resolved.

On November 14, 2005, the City of Brainerd asked the Commission to deny CenterPoint's request for an interim rate increase.

On November 18, 2005, the Minnesota Department of Commerce (the Department) filed comments. Based on its review of CenterPoint's petition and on CenterPoint's commitment to file certain additional information, the Department recommends that the Commission accept CenterPoint's filing as complete and refer this matter to the OAH for a contested case proceeding.

On November 21, 2005, CenterPoint filed the supplemental information requested by the Department.

This matter came before the Commission on December 15, 2005. Among other things, the Commission found CenterPoint's filing to be complete as of November 2, 2005, suspended CenterPoint's proposed rate increase,¹ and referred the matter to the Office of Administrative Hearings for a contested case proceeding.²

¹ ORDER ACCEPTING FILING AND SUSPENDING RATES, this docket.

² NOTICE AND ORDER FOR HEARING, this docket.

FINDINGS AND CONCLUSIONS

I. THE INTERIM RATE STATUTE

Minnesota Statutes § 216B.16, subdivision 3, states that interim rates are established in expedited proceedings conducted ex parte; consequently, the Commission may not consider comments from other parties. Except under exigent circumstances, the following principles control:

Interim rates are based on the proposed test year cost of capital, the proposed test year rate base, and proposed test year expenses. They are calculated using existing rate design and the rate of return on common equity authorized in the company's last general rate case. Only rate base and expense items similar in nature and kind to those allowed under the company's last general rate case Order can be included in interim rate calculations.

While the Commission may not consider other parties' comments when setting interim rates, Minnesota statutes protect ratepayer interest by requiring that the interim rates be subject to refund. That is, if the utility collects more in interim rates than it would have collected in final rates, it must refund the difference to ratepayers. If it collects less, it can recover the difference, but only for the time period between the final determination in the rate case and the date on which final rates go into effect.

II. REVENUE DEFICIENCY AND RATE DESIGN

A "revenue deficiency" refers to the extent to which a utility's costs, including the need to pay a fair return to investors, exceed its revenues. The process of "rate design" involves setting the price of services for different classes of customers such that the utility can expect its total revenues to cover its operating costs and provide a fair return to investors.

A. CenterPoint's Proposal

Until the rate case is resolved, CenterPoint proposes to increase revenues by \$34,719,000 annually,³ or approximately 2.07%, based on the 10.18% rate of return on common equity approved in its prior rate case.

CenterPoint calculates its revenue deficiency as follows:

³ Various factors account for the fact that CenterPoint's proposed interim rates are less than its proposed permanent rates. Generally, CenterPoint's interim rate proposal reflects the anticipated average levels of rate base during the "test year" (sample period analyzed to determine a utility's operating costs and revenues), whereas its permanent rate proposal reflects an average forecasted rate base. In addition, CenterPoint calculated its interim rate proposal based on the rate of return on equity approved in the last rate case, whereas CenterPoint seeks permanent rates based on a higher return on equity.

	Total capital cost	7.97 %
x	Rate base	\$ 626,724,000
=	Required operating income	\$ 49,950,000
-	Current net operating income	\$ 29,594,000
=	Income deficiency	\$ 20,356,000
x	Revenue conversion factor	1.7056
=	REVENUE DEFICIENCY:	\$ 34,719,000

In order to recover this deficiency during the pendency of the rate case, CenterPoint proposes to increase all customer bills by an equal percentage, 2.07%, based on CenterPoint's existing rate design⁴ – but with some exceptions.

Minnesota Statutes § 216B.163 provides for a gas utility to negotiate rates with certain "market rate" customers based on the customer's ability to stop taking service from the utility by connecting directly to the interstate pipeline or by switching to a substitute fuel. Where CenterPoint fears that raising a customer's market-based rates would cause the customer to stop taking CenterPoint's service, CenterPoint asks that it be permitted to refrain from increasing those rates. Consistent with prior Commission Orders, however, CenterPoint does not seek to recover these forgone revenues from other ratepayers.

In addition, the Commission has previously authorized CenterPoint to offer No Surprise Bill ® service, whereby the amount of a customer's bill is fixed throughout the year. In calculating the fixed bill amount, CenterPoint estimated that it would not seek to raise rates by more than 1.3% during the term of the No Surprise Bill contract. While CenterPoint now proposes a 2.07% interim increase, CenterPoint will honor its agreement not to seek more than 1.3% from its No Surprise Bill customers. At hearing CenterPoint stated that it would treat the revenues forgone from its No Surprise Bill ® customers in the same manner as the revenues forgone from its market rate customers.

CenterPoint proposes that the interim rate increase go into effect on January 1, 2006.

B. Commission Action

The record supports CenterPoint's interim rate proposal. The revenue deficiency calculation reflects the best estimate of CenterPoint's needs, calculated on the basis of the return on equity approved in its prior rate case. CenterPoint's proposal generally to allocate the rate increase among all customers is consistent with statute. Where CenterPoint anticipates that it will not be recovering its full 2.07% increase from certain customers, the Commission finds that exigent

⁴ Aspects of a customer's bill that merely pass through certain costs incurred by CenterPoint – the monthly adjustment for changes in the wholesale cost of gas, municipal franchise fees and state and local sales tax, for example -- would not change as a result of this rate case, and therefore would not be increased as part of CenterPoint's interim rate proposal.

circumstances warrant this deviation.

Minnesota Statutes § 216B.16, subdivision 3, provides for interim rates to take effect within 60 days of a rate case filing. January 1, 2006, is within 60 days of November 2, 2005, the date CenterPoint's application became complete.⁵ Finding that CenterPoint's request complies with the statutory requirements, the Commission will grant the request.

III. IMPLEMENTATION

A number of logistical steps are required to implement CenterPoint's interim rates.

- To reduce customer confusion, the Commission will direct CenterPoint to work with the Commission's Executive Secretary to develop a notice explaining its interim rate change, and to secure the Executive Secretary's approval of the notice.
- The Commission will also direct CenterPoint to file, and to serve on the Department, the approved customer notice along with interim rate tariff sheets and supporting documentation reflecting the decisions herein.
- For each customer, CenterPoint shall include this notice with the first bill reflecting the interim rates. The Commission will also direct CenterPoint to certify when this task has been completed.
- The Commission will direct CenterPoint to keep such records of sales and collections under the interim rates as would be necessary to compute a potential refund.
- Finally, the Commission will direct CenterPoint to begin any refund within 120 days of the effective date of the Commission's final order in this docket in a manner approved by the Commission.

These measures will facilitate the implementation of CenterPoint's interim rates, including the return of any excess rates collected. The Commission will delegate authority to approve notices and bill inserts to its Executive Secretary for the duration of this proceeding.

IV. SUMMARY OF COMMISSION ACTION

Based on the findings and conclusions above, the Commission will authorize CenterPoint to increase its revenues by \$34,719,000 annually, or approximately 2.07%, subject to refund, beginning with service provided on and after January 1, 2006. The Commission will direct CenterPoint to impute revenues to all of its customers on an equal percentage basis, and to take the prescribed steps for implementing this interim rate increase.

ORDER

1. The capital structure, cost of capital and other financial matters regarding CenterPoint's \$34,719,000 interim rate proposal are approved. The interim rate schedule will be

⁵ See ORDER ACCEPTING FILING AND SUSPENDING RATES, this docket.

- effective for service rendered on and after January 1, 2006.
2. CenterPoint's interim rate proposal is approved.
 3. CenterPoint shall work with the Executive Secretary to develop a notice explaining its interim rate change, and shall secure the Executive Secretary's approval of the notice.
 4. CenterPoint shall file with the Commission, and serve on the Department, the approved customer notice, along with interim rate tariff sheets and supporting documentation reflecting the decisions herein.
 5. For each customer, CenterPoint shall include the approved customer notice with the first bill reflecting the interim rates. CenterPoint shall certify to the Commission when this task has been completed.
 6. CenterPoint shall keep such records of sales and collections under the interim rates as would be necessary to compute a potential refund.
 7. When the Commission approves permanent rates to replace these interim rates, if the permanent rates are less than the interim rates CenterPoint shall refund the excess amount collected under the interim schedule. Any refund shall begin within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.
 8. The Commission hereby delegates to the Executive Secretary the authority to approve notices and bill inserts for the duration of this proceeding.
 9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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