BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	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: November 2, 2006

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

FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

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PROCEDURAL HISTORY

I. Initial Filings

On November 2, 2005, CenterPoint Energy (CenterPoint or the Company), a division of CenterPoint Energy Resources Corp. (CERC), filed a general rate case. CenterPoint issues no publicly traded stock, since it is a division of CERC, which itself is a wholly owned subsidiary of CenterPoint Energy, Inc. (CPE). CenterPoint requested a rate increase of $40,878,000, or approximately 2.4 percent, over existing rates.

On December 21, 2005, the Commission issued three Orders in which it accepted CenterPoint's filing as being in proper form and substantially complete, suspended CenterPoint's proposed final rates until the end of this case, and referred this matter to the Office of Administrative Hearings for a contested case proceeding.[1] The Commission also approved CenterPoint's request for interim rates, and authorized CenterPoint to increase its revenues by $34,719,000 annually, or approximately 2.07 percent, subject to refund, beginning with service provided on and after January 1, 2006. The Commission directed CenterPoint to impute revenues to all of its customers on an equal percentage basis.

II. The Parties and their Representatives

The Commission's December 21, 2005 NOTICE AND ORDER FOR HEARING identified the Minnesota Department of Commerce (the Department) and the Minnesota Office of Attorney General-Residential and Small Business Utilities Division (RUD-OAG) as parties to this proceeding. On January 20, 2006, Administrative Law Judge Beverly Jones Heydinger issued the FIRST PREHEARING ORDER in this matter, granting intervenor status to Energy CENTS

[1] This docket, 1) ORDER ACCEPTING FILING AND SUSPENDING RATES; 2) NOTICE AND ORDER FOR HEARING; and 3) ORDER SETTING INTERIM RATES.

Coalition (ECC),[2] Suburban Rate Authority (SRA), and Legal Services Advocacy Project (LSAP), and participant status to Cornerstone Energy (Cornerstone).[3]

The parties were represented as follows:

Eric Swanson and David Aafedt, Attorneys at Law, Winthrop & Weinstine, 225 South Sixth Street, Minneapolis, MN 55402, appeared for CenterPoint Energy Resources Corp. (CenterPoint or the Company).

Karen Finstad Hammel and Valerie Smith, Assistant Attorneys General, 1400 Bremer Tower, 445 Minnesota Street, St. Paul, Minnesota 55101, appeared for the Minnesota Department of Commerce (Department).

Ron Giteck and Steve Alpert, Assistant Attorneys General, 900 Bremer Tower, 445 Minnesota Street, St. Paul, Minnesota 55101, appeared for the Minnesota Office of the Attorney General-Residential Utilities Division (RUD-OAG).

Pam Marshall, Executive Director, and Chris Duffrin, Assistant Director of the Energy CENTS Coalition (Energy CENTS or ECC), 823 East 7th Street, Saint Paul, Minnesota 55106, appeared on behalf of Energy CENTS.

James Strommen, Attorney at Law, Kennedy & Graven, 200 South Sixth Street, Suite 470, Minneapolis, Minnesota 55402, appeared for the Suburban Rate Authority (SRA).

III. Proceedings Before the Administrative Law Judge (ALJ)

A. Evidentiary Hearings

Parties filed direct, rebuttal, and surrebuttal testimony in writing, and Administrative Law Judge (ALJ) Heydinger held evidentiary hearings on April 11, 2006 in the Large Hearing Room at the offices of the Public Utilities Commission (Commission) in St. Paul, Minnesota. The evidentiary hearing continued until April 13, 2006.

B. Public Hearings

Public hearings were held by videoconference on March 29, 2006, between St. Paul, Brainerd, Plymouth, North Mankato, and Willmar. Additional public hearings were held in Minneapolis at the Minneapolis Community and Technical College on March 28, 2006; in Coon Rapids on March 30, 2006; in Bloomington on April 5, 2006: and in Minneapolis at the Sabathani Community Center on April 11, 2006.

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[2] On March 6, 2006, the Commission granted ECC's request for a preliminary determination of eligibility and issued its ORDER MAKING PRELIMINARY DETERMINATION OF ELIGIBILITY FOR INTERVENOR COMPENSATION in this matter.

[3] LSAP and Cornerstone did not participate any further in this case.

C. Additional Hearing

After the conclusion of the evidentiary hearing, the Commission determined that additional hearings were appropriate regarding the proposed affordability program and the background on CenterPoint's billing system. Additional hearings were scheduled for June 8 and June 28, 2006. Following further discovery, the parties agreed that the June 8 hearing was not necessary and it was cancelled. The hearing on the billing program and related calling center issues was held on June 28, 2006.

D. Post-Hearing Briefing Before the ALJ

A briefing schedule was established at the conclusion of the evidentiary hearings. Posthearing briefs were filed on July 11, 2006; supplemental briefs were filed on August 4, 2006; and reply briefs were filed on August 14, 2006.

IV. Proceedings Before the Commission

On September 8, 2006, the ALJ issued FINDINGS OF FACT, CONCLUSIONS, AND RECOMMENDED ORDER (ALJ's Report). The ALJ recommended that the Commission issue an Order finding that CenterPoint is entitled to increase gross annual revenues in the manner and in an amount consistent with the terms adopted by the ALJ and directing Centerpoint to file revised schedules of rates and charges reflecting the ALJ's Findings and Conclusions.

On September 14, 2006, CenterPoint submitted schedules that reflect the test year revenue requirement and rate design recommended by the ALJ. In its filing, Center Point stated that the ALJ's Recommendation, if adopted, would reduce CenterPoint's rate increase to $19.87 million, or 1.23 percent, not including the $5 million for the affordability program.

On September 18, 2006, CenterPoint, the Department, RUD-OAG, ECC, and SRA submitted exceptions to the ALJ's report. Replies to these exceptions are not permitted, pursuant to Minn. Rules, part 7829.2700, subpart 2.

On September 22, 2006, the Department submitted a letter requesting CenterPoint to make adjustments to its September 14, 2006 schedules to reflect corrections to the lead-lag study, and the rate base value of gas stored underground. In response to this letter, the Company reduced its rate increase request from $19.87 million to $19.45 million.

On October 5, 2006, the Commission held oral argument and the record closed under Minn. Stat. § 14.61, subd. 2.

Having examined the entire record herein and having heard the arguments of the parties, the Commission makes the following findings, conclusions, and Order.

FINDINGS AND CONCLUSIONS

I. The Company

CenterPoint Energy (CenterPoint or the Company) is a division of CenterPoint Energy Resources Corp. (CERC). As a division of CERC, it issues no publicly traded stock.

In 1997, the Commission approved a merger between the NorAm Energy Corporation (NorAm) and Houston Industries, Inc. (HI). CenterPoint Energy was then a division of NorAm. HI changed its name to Reliant Energy, Inc. in 1999. After a restructuring to spin off unregulated businesses in 2002, the regulated businesses began operating under the name of CenterPoint Energy, Inc. (CPE). CenterPoint Energy Resources Corporation (CERC) is a wholly-owned subsidiary of CPE.

CenterPoint operated the natural gas utility service known as CenterPoint Energy Minnesota Gas in Minnesota as a division of CERC. Effective December 1, 2004, CERC directed that its division formerly known as CenterPoint Energy Minnegasco would be known only as CenterPoint Energy. The parent corporation's (CERC's) headquarters are located in Houston, Texas. In addition to Minnesota, the parent corporation provides natural gas distribution services to approximately five million customers in Arkansas, Louisiana, Mississippi, Oklahoma, and Texas.

CenterPoint distributes natural gas to over 750,000 customers in Minnesota. The Company added 17,000 residential customers in 2004. The Company's natural gas service territory encompasses a large part of central and southern Minnesota, including Minneapolis and its northern, southern and western suburbs. CenterPoint also operates an unregulated energy services business, Home Service Plus®, which offers repair and maintenance for a variety of heating, ventilation, and air conditioning and other appliances. The Company's last rate increase in Minnesota was $9 million (approximately 0.75 percent of revenues), granted in 2005.

II. Jurisdiction

The Commission has general jurisdiction over the Company under Minn. Stat. §§ 216B.01 and 216B.02. The Commission has specific jurisdiction over the rate changes requested by the Company under Minn. Stat. § 216B.16.

The case was properly referred to the Office of Administrative Hearings under Minn. Stat. §§ 14.48-14.62 and Minn. Rules, part 1400.0200 *et seq*.

III. The Legal Standard - Burden of Proof

Under the Public Utilities Act, utilities seeking a rate increase have the burden of proof to show that the proposed rate change is just and reasonable. Minn. Stat. § 216B.16, subd. 4. Any doubt as to reasonableness is to be resolved in favor of the consumer. Minn. Stat. § 216B.03.

Minn. Stat. § 216B.16, subd. 4 states that "[t]he burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change." Under Minn. Stat. § 216B.03, every rate made, demanded or received by any public utility "...shall be just and reasonable.... Any doubt as to the reasonableness should be resolved in favor of the consumer."

The Minnesota Supreme Court has articulated standards for the burden of proof in rate cases. *In the Matter of the Petition of Northern States Power Company for Authority to Change Its Schedule of Rates for Electric Service in Minnesota*, 416 N.W.2d 719 (Minn. 1987). In the *Northern States Power* case the Court divided the ratemaking function of the Commission into quasi-judicial and legislative aspects. The Commission acts in a quasi-judicial mode when it determines the validity of facts presented. Just as in a civil case, the burden of proof is on the utility to prove the facts by a fair preponderance of the evidence. Such items as claimed costs or other financial data are facts which the utility must prove by a fair preponderance of the evidence.

The Commission acts in a legislative mode when it weighs the facts presented and determines if proposed rates are just and reasonable. Acting legislatively, the Commission draws inferences and conclusions from proven facts to determine if the conclusion sought by the utility is justified. The Commission weighs the facts in light of its statutory responsibility to enforce the state's public policy that retail consumers of utility services shall be furnished such service at reasonable rates. In its legislative capacity, the Commission forms determinations such as the usefulness of a claimed item, the prudence of company decisions, and the overall reasonableness of proposed rates.

The utility therefore faces a two-part burden of proof in a rate case. When presenting its case in the rate case proceeding, the utility has the burden to prove its facts by a fair preponderance of the evidence. The utility also has the burden to prove, by means of a process in which the Commission uses its judgment to draw inferences and conclusions from proven facts, that the proposed rates are just and reasonable.

IV. Statement of the Issues

CenterPoint requested an increase in its natural gas rates of $40.9 million, which is approximately a 2.4 percent increase in its annual gross operating revenues. The ultimate questions posed in this docket are whether the Commission should approve an increase in the Company's natural gas rates (determination of revenue deficiency) and if so, how should the rate increase be apportioned between the various classes of ratepayers (rate design).

The key issues whose resolution determines the final outcome on the docket's ultimate questions are the following:

- Is the revenue increase sought by CenterPoint reasonable or will it provide CenterPoint with unreasonable or excessive earnings?

- Is the rate design proposed by CenterPoint reasonable?

In its December 21, 2005 Order referring CenterPoint's rate case to the Office of Administrative Hearings (OAH) for a contested case proceeding, the Commission identified a number of issues to be developed in the record.[4]

V. The Administrative Law Judge's Report

The Administrative Law Judge held four days of evidentiary hearings and five days of public hearings. She reviewed the parties' prefiled direct, rebuttal, and surrebuttal testimony as well as their post-hearing briefs and reply briefs. Her report is thoughtful, comprehensive, and thorough. She made 250 findings of fact and 28 conclusions, forming the basis for her two principal recommendations previously cited:

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[4] *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,* Docket No. G-008/GR-05-1380, NOTICE AND ORDER FOR HEARING (December 21, 2005) at 4-5.

1. CenterPoint is entitled to increase gross annual revenues in the manner and in an amount consistent with the terms of this Order.

2. Within 30 days of the service date of this Order, the CenterPoint shall file with the Commission for its review and approval, and serve on all parties in this proceeding, revised schedules of rates and charges reflecting the revenue requirement for annual periods beginning with the effective date of the new rates, and the rate design decisions contained herein. CenterPoint shall include proposed customer notices explaining the final rates. Parties shall have 14 days to comment.[5]

Having examined the record and carefully considered the report of the ALJ, together with the parties' exceptions to the ALJ's Report and their oral arguments on October 3 and 5, 2006, the Commission accepts, adopts, and incorporates herein nearly all of her findings and conclusions of law. At a few points, however, the Commission has reached different conclusions, in whole or in part, as delineated and explained below in the text of this Order.

In addition to discussing the issues on which the Commission did not adopt the ALJ's recommendations, in whole or in part, the Order also addresses issues on which a party filed exceptions to the ALJ's recommendation. In discussing those issues, the Order explains why the Commission has rejected the position taken in the party's exceptions and adopted the ALJ's recommendation.

VI. Statutory Deadline

On May 1, 2006 and May 19, 2006, CenterPoint filed two motions with the ALJ for extension of the deadline established in Minn. Stat. § 216B.16, subd. 2 for the Commission to take final action on its rate request, stating its willingness to extend the deadline to November 2, 2006. On May 24, 2006, the ALJ forwarded to the Commission a recommendation that the Commission grant the Company's two motions.

No party has objected to these extensions, either to the ALJ or to the Commission. The Commission finds that it is in the public interest to approve these extension requests since they allowed the parties to develop the record and to brief the relevant issues without unduly constraining the Commission's review and decision herein.

Accordingly, the Commission's statutory deadline to take final action on the Company's rate request has been extended at the Company's request and for good cause to November 2, 2006.

VII. Midwest Replacement Project

A. Background

On December 28, 2004, a natural gas fitting on a service line at a business in Ramsey, Minnesota failed, resulting in an explosion that killed three persons, seriously injured another and destroyed the

[5] *In the Matter of the Application of CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota*, PUC Docket No. G-008/GR-05-1380, OAH Docket No. 15-2500-17032-2, Findings of Fact, Conclusions of Law, and Recommended Order (September 8, 2006) at 65.

building. The subsequent investigation determined that a fitting had been improperly installed in such a manner that a sudden, catastrophic failure could occur. The improper fittings had been installed in 1980 by North Central Public Service Company, a predecessor company to Midwest Gas Company, which in turn transferred the service lines in question to CenterPoint. Records of the installations indicated that a large number of service lines could be affected by the improper fittings.

In May 2005, the Minnesota Office of Pipeline Safety (MNOPS) issued a Compliance Order to address the problem identified in the Ramsey Incident. The MNOPS Order required that CenterPoint replace or visually inspect all plastic service lines installed prior to 1984 by North Central Public Service Company. CenterPoint was also obligated to maintain detailed records of what was found and what remedial measures were taken.

Under the direction of the MNOPS Order, CenterPoint initiated the Midwest Gas Replacement Project. The Midwest Gas Replacement Project inspected over 30,000 service lines and replaced those lines where needed.

B. CenterPoint's Position

1. Recoverability

CenterPoint included $38,000,000 as estimated 2005 and $700,000 as projected 2006 tangible capital expenditures in its rate base arising from the Midwest Gas Replacement Project. CenterPoint maintained that the rate base treatment of those expenses was required under Minn. Stat. § 216B.16, subd. 11, which states:

> **Pipeline safety programs.** All costs of a public utility that are necessary to comply with state pipeline safety programs under sections 216D.01 to 216D.07, 299F.56 to 299F.64, or 299J.01 to 299J.17 must be recognized and included by the commission in the determination of just and reasonable rates as if the costs were directly incurred by the utility in furnishing utility service.

2. Third Party Recovery

CenterPoint has identified several sources of compensation for the replacement project's cost. These include: (1) the Asset Exchange Agreement dated December 23, 1992 between Arkla. Inc. and Midwest Power Systems, Inc. which contains various provisions including an "Indemnification" provision and an "Assumption of Certain Liabilities" provision; (2) CPE's third party action against MidAmerican Energy Co., the successor to Midwest Gas and North Central Public Service; and (3) CPE's notice to the Claims Department of AEGIS Insurance Services, Inc. regarding the Ramsey explosion which resulted in the insurance company putting on notice Performance Pipe (a division of Chevron), MidAmerican Energy. Dresser Piping Specialties, and other relevant parties that their products may have been involved in the Ramsey explosion.

CenterPoint agreed with the Department's recommendation that the Commission require the Company to report to the Commission all third party recovery obtained, together with a proposal for returning any such recovery to ratepayers.

C. The ALJ's Recommendation

1. Recoverability

The ALJ concluded that CenterPoint has demonstrated that the costs of the Midwest Gas Replacement Project were necessary to comply with a State pipeline safety program and that by statute, the costs must be recognized and included in the Commission's determination of just and reasonable rates.

2. Third Party Recovery

The ALJ found that the approach agreed upon by the Department and the Company for tracking recoveries is a reasonable method of refunding to customers the amounts collected in a timely fashion, without unduly burdening CenterPoint, and without causing confusion to customers by generating multiple adjustments to their billings. The ALJ stated that the refund mechanism would ensure that the money recovered (if any) will be returned to customers. The ALJ concluded that the tracking/refund proposal is reasonable, will prevent double recovery, and is appropriate for approval by the Commission.

D. The RUD-OAG's Exception to the ALJ's Recommendation

In its exceptions to the ALJ's report, the RUD-OAG argued that the ALJ had insufficient basis in the record to conclude that Minn. Stat. § 216B.16, subd. 11 applied, i.e., that the costs asserted by the Company as "necessary to comply with state pipeline safety programs" (in this case, the MNOPS Order) were in fact expended for that purpose.

As a further exception, the RUD-OAG argued that the ALJ's approved approach to the third party recovery issue (recovery now followed by tracking and reporting third-party recovery) was insufficient in that it did not give CenterPoint an incentive to zealously seek third-party recovery.

E. The Suburban Rate Authority's Exception

The SRA objected to what it characterized as the ALJ's ratepayer payment now/possible reimbursement later approach. The SRA argued that Minn. Stat. § 216B.16, subd 11 does not supercede a prudence review of the utility expenditures in question before CenterPoint is allowed to recover the $40 million replacement expenses. The SRA stated that CenterPoint's prudence at the time it acquired the pipeline assets in question in 1993 is relevant to its request for recoverability of replacement project costs in this docket, must be determined before CPE's right to recover is decided, and, along with other factors affecting CenterPoint's right to recover from MEC, is currently being litigated.

In short, the SRA argued that the MEC litigation should run its course and the incentive for CenterPoint to win the highest possible settlement should remain on CenterPoint's shareholders. Only when the outcome of the MEC litigation, including appeals, is known should the Commission evaluate CenterPoint's prudence and, hence, the rate treatment of the Replacement Project costs.

F. Commission Analysis and Action

The Commission finds the ALJ's recommendation correct and will adopt it with one modification, as explained below.

Minn. Stat. § 216B.16, subd. 11 states:

> All costs of a public utility that are necessary to comply with state pipeline safety programs under sections 216D.01 to 216D.07, 299F.56 to 299F.64, or 299J.01 to 299J.17 must be recognized and included by the commission in the determination of just and reasonable rates as if the costs were directly incurred by the utility in furnishing utility service.

The Commission finds that the action proposed by the RUD-OAG and the SRA in their exceptions (denial of recovery or substantial delay in that recovery) is not consistent with the requirements of Minn. Stat. § 216B.16, subd. 11.

First, the Commission rejects the RUD-OAG's assertion that the record is inadequate to support recovery of the costs in question. In the context of the statute's specific mandate, the record established by CenterPoint is indeed adequate to invoke the statute's mandate and justify recovery in this case. In addition, there are sound public policy reasons for interpreting the statute's mandate to allow recovery of the specific category of expenses identified (state pipeline safety program-related expenses). The record supports that these costs were incurred in direct response to a directive from the Office of Pipeline Safety. Pipeline safety is a paramount concern (even more so after the tragic explosion on December 28, 2004) and a narrow interpretation of what is required for recovery may discourage or impede utilities from making expenditures to meet directives of the Office of Pipeline Safety. In addition, as a practical consideration, the RUD-OAG did not identify any particular expenditure which it challenged as inappropriate for recovery.

Second, in light of the statute, placing all recovery of these expenses on hold pending the outcome of litigation between CenterPoint and the third parties as advocated by the RUD-OAG and the SRA is not warranted.

At the same time, the RUD-OAG and the SRA have a good point that if the Company is allowed to recover all these expenditures from ratepayers at once, the Company may well lose motivation to litigate sound claims they have against third-parties to recover those expenditures.[6] No party disputes that in this case, any moneys recovered from these sources against third parties should be returned to the rate payers to avoid the Company double-collecting these expenses, once from the

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[6] CenterPoint has identified several sources of compensation for the replacement project's costs. These include: 1) the Asset Exchange Agreement dated December 23, 1992 between Arkla, Inc. and Midwest Power Systems, Inc. which contains indemnification provisions; 2) CenterPoint's third party action against MidAmerican Energy Co. (MEC), the successor to the companies that sold the defective pipelines to CenterPoint; and 3) CenterPoint's notice to the Claims Department of AEGIS Insurance Services, Inc. regarding the Ramsey explosion which resulted in the insurance company putting on notice Performance Pipe (a division of Chevron), MEC, Dresser Piping Specialties, and other relevant parties that their products may have been involved in the Ramsey explosion.

rate payers and again from the third-party defendants. Indeed, the Company has proposed to turn over any such recovery not to the Company's shareholders but to the rate payers and the ALJ specifically accepted this.

The Company insisted that having filed the lawsuits against MEC and others to recoup the expenditures in question, no additional motivation to thoroughly pursue these claims is necessary. Its attorneys, the Company stated, are bound by professional obligation to pursue those suits through vigorously to the end. The Commission acknowledges the Company's representation that the suits will be pursued vigorously to the end and factors that representation into its ultimate decision on this matter. Having done so, however, the Commission still finds it prudent on behalf of ratepayers to defer some meaningful level of recovery as additional motivation to promote the Company's full exploration of the Company's rights to recover against the third parties.

Applying the rule of reasonableness to the broad terms of the statute, therefore, the Commission finds that in these circumstances it is consistent with the requirements of Minn. Stat. § 216B.16, subd. 11 to modify the ALJ's recommendation by deferring recovery of 10 percent of the capitalized costs in question pending the Company's exhaustion of its legal remedies against the third parties.

VIII. The Plant in Service Component of Rate Base/Revenue Requirement

A. Background

In setting rates for a public utility, the Commission must determine the total level of investment by the utility in its "utility property used and useful in rendering service to the public." Minn. Stat. § 216B.16, subd. 6. In utility rate cases, such investments are referred to as the utility's rate base. CenterPoint's initial filing maintained that the test year rate base for the 12 month period ending December 31, 2006 amounted to $626,844,000.

B. CenterPoint's Proposal and the Department's Recommendations

However, CenterPoint's actual 2005 plant placed in service was $7.3 million less than what the Company had forecasted. Since the Company's test year rate base and revenue requirement are dependent upon, among other items, the forecasted additions to plant in service, the Department argued that the known difference between forecasted and actual expenses should be taken into consideration in setting the Company's test year rate base and revenue requirement. The Department also argued that the Company had not shown that it is reasonable to add $1,991,000 of inspection and clerical expenses related to the Midwest Replacement Project into the 2005 actual plant balance.

C. The ALJ's Recommendations

1. Adjustments to the Test Year Expenses

The ALJ agreed with the Department's proposal to adjust to what is now known to be the actual rate base beginning balance, specifically adjusting CenterPoint's projected beginning of test year figure to recognize the actual 2005 ending plant balance. The ALJ reasoned that because the rates being set are carried forward over a period of years, there is a need to ensure that the starting point is as accurate as possible. Where known significant changes can be identified, the ALJ stated, adjusting the starting point is appropriate.

2. Inspection and Clerical Expenses

The ALJ rejected the Department's recommendation that $1,991,000 of inspection and clerical expense associated with the Midwest Gas Replacement Project be excluded from rate base. The ALJ reasoned that since CenterPoint had demonstrated that these costs were necessary to comply with a State pipeline safety program, the Company must be allowed to recover these costs.[7]

D. Commission Analysis and Action

The Commission adopts the ALJ's recommendations on both issues: adjustments to the test year capitalized costs and the inspection and clerical expenses. The Commission finds that it would be unreasonable to ignore CenterPoint's $7.3 million overstatement of the test year rate base. The record does not support the Company's assertion that the new billing system expenses outweighed the $7.3 million difference between CenterPoint's projected plant additions and actual plant additions.

Regarding the inspections and clerical expense issue, the Commission concludes that Minn. Stat. § 216B.16, subd. 11 intends recovery of these particular expenses.

IX. Bad Debt Factor

A. Background

The general formula for calculating bad debt expenses to be included in the Company's projected test year is: test year firm revenue multiplied by a bad debt factor. The bad debt factor is the percentage of customer accounts receivable that the Company reasonably believes will have to be written off as uncollectible.

In this case, CenterPoint proposed a bad debt factor of 1.37 percent. The Company stated that it derived its proposed bad debt factor by dividing the actual 12-month bad debt expense for the period ending June 30, 2005 by the firm revenue for that period.

The Department, noting that CenterPoint used the same method in this case to calculate bad debt expense as it did in its 2004 rate case, stated that the proposed 1.37 percent bad debt factor appeared to be reasonable. The Department stated that its does not oppose the Company's methodology or the resulting factor. The Department argued that the cost of gas has increased

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[7] Reading the ALJ's Finding Nos. 101 and 114 - 116 together, it is clear that the ALJ did not intend to adopt the Department's recommendation to deny the $1,991,000 inspection and clerical expenses in Finding No. 101, but simply to adopt the Department's other recommendations for adjustments to CenterPoint's rate base. This is clear because in Finding Nos. 114-116, the ALJ specifically addressed the Department's recommendation to exclude "roughly two million" [the inspection and clerical expenses] incurred out of the test year period and rejected it, finding that CenterPoint has demonstrated that these [the inspection and clerical expenses] are known costs, incurred in a necessary remediation program. Regarding these costs, the ALJ stated: "Affording these costs different treatment has not been shown reasonable." Finding No. 116. Further, the ALJ's Conclusion 8 states in relevant part: "CenterPoint properly included . . . $1,991,00 for capitalized inspection and clerical expenses arising from the [Midwest Gas Replacement] Project."

significantly since the 2004-2005 heating season, which led the Department to believe that the bad debt expense in the test year will be at, if not higher than, the proposed rate.

The RUD-OAG and Energy CENTS both objected to CenterPoint's initially proposed bad debt factor of 1.37 percent but subsequently, Energy CENTS entered a stipulation with the Company which, among other things, proposed a debt factor of 1.27. The Department did not object to that debt factor but the RUD-OAG did.

B. The ALJ's Recommendation

The ALJ approved the bad debt factor proposed by CenterPoint and Energy Cents in their stipulation: 1.27 percent. The ALJ noted that the parties' proposed bad debt factor was derived from averaging the actual bad debt percentages from the past two years (2004 and 2005). The ALJ found that their proposed bad debt factor of 1.27 percent was supported in the record and was unlikely to result in excessive retention of funds in the bad debt reserve that a higher bad debt factor (percentage) could generate.

The ALJ addressed the RUD-OAG's concern regarding potential over-recovery of bad debt costs. The ALJ noted the RUD-OAG's objection that the 1.27 percent bad debt factor did not adequately account for the ameliorative affect (reduction in the amount of bad debt) due to the Affordability Program and federal and state assistance programs. The ALJ found that the terms of the Affordability Program, including the financial evaluation and tracker adjustment, addressed the RUD-OAG's concerns and would preclude any harm to ratepayers.

C. The RUD-OAG's Exception

The RUD-OAG objected that the ALJ had not addressed all its concerns regarding the 1.27 percent bad debt factor. According to the RUD-OAG the ALJ had failed to address the potential for lower bad debt expense resulting from 1) the reduction in natural gas prices, 2) the availability of more Low Income Heating Assistance (LIHEAP) and other funds, and 3) the availability of funds from the Cold Weather Rule Settlement. The RUD-OAG also stated that the ALJ had not taken into consideration the level to which CenterPoint's practices with respect to collections and the implementation of its new billing system were responsible for uncollectible debts.

In addition, the RUD-OAG alleged that the ALJ had failed to address the RUD-OAG's concerns that the method by which CenterPoint derived the bad debt factors of 1.37 percent (CenterPoint's original proposed bad debt factor) and 1.42 percent (the actual bad debt factor reported by CenterPoint for 2005) were not supported in the record.

Further, the RUD-OAG asserted that the ALJ erred in finding that a tracker mechanism in the Affordability Program addressed the RUD-OAG's concern regarding potential over-recovery of bad debt expenses because, the RUD-OAG asserted, the proposed tracker is unlawful and inequitable. The RUD-OAG stated, as it did regarding the Affordability Program in general, that instead of approving the tracker mechanism the ALJ should have adopted the RUD-OAG's proposal to give the Affordability Program deferred accounting treatment.

The RUD-OAG asserted that because CenterPoint has been unable to produce concrete evidence justifying a change, the bad debt factor (1.02 percent) approved by the Commission in CenterPoint's most recent rate case should be maintained.

D. Commission Analysis and Action

The Commission finds that the ALJ's recommendation of the 1.27 percent bad debt factor proposed by CenterPoint and Energy CENTS and not objected to by the Department is reasonable and adequately supported by the record. The Commission will adopt it. The Commission has considered the exceptions taken to the ALJ's recommendation by the RUD-OAG and they do not persuade the Commission that the 1.27 percent bad debt factor is unreasonable.

First, the RUD-OAG suggests that the ALJ erred by not taking into account three factors it alleges demonstrate that the 1.27 percent figure is too high. The Commission finds that these alleged factors (the reduction in natural gas prices; the availability of more Low Income Heating Assistance (LIHEAP) and other funds; and the availability of funds from the Cold Weather Rule Settlement) are too speculative and unsubstantiated to be relied upon. In short, the record with regard to these three factors does not show that the 1.27 percent figure is unreasonable.

Second, the RUD-OAG's challenge to the methodology of calculating the 1.27 percent figure is off the mark. CenterPoint and Energy CENTS used a two year average of year-end 2004 (1.11 percent) and year-end 2005 (1.42 percent) to arrive at the 1.27 percent proposal. The bad debt factor in a projected test year is by its nature an estimate of what percentage of accounts receivable will be uncollected during that year. An acceptable bad debt factor is one which is within the range of reasonableness. The RUD-OAG criticized the methodology used to reach the 1.27 percent figure but did not assert that 1.27 percent figure was outside the range of reasonableness and indeed the Department's analysis concluded that the bad debt expense in the test year is expected to be at, if not higher than, the Company's originally proposed rate of 1.37 percent.

Third, the RUD-OAG rejected the ALJ's reliance upon provisions of the Affordability Program, to curb any over-collection of bad debt expenses not because the OAG-RUD believes that these provisions will not have that effect, but because the RUD-OAG believes that the Affordability Program should be rejected and hence unavailable to curb any over-collection. Since the Commission has approved the Affordability Program, conditioned as explained elsewhere in this Order, the RUD-OAG's argument on this point falls.

Finally, to put the choice of the bad debt factor into further perspective, safeguards against over-collection of bad debt expenses are in place. CenterPoint has explained on the record that it monitors delinquencies and its bad debt reserve on an on-going basis and makes any adjustments required. The Company's expert witness testified that consistent with generally accepted accounting principles if the Company determined that the debt reserve was too high, it would reduce its bad debt expense to get it to an appropriate level. The Company stated that in addition to the Company's internal monitoring, an external auditor comes on site annually to review all entries made and the reserve levels, to determine whether the reserve and bad debt expenses reported are reasonable.

X. Cost/Commodity Price of Natural Gas

A. Background

There are several items in a rate case (such as bad debt, cash working capital, late payments, and potential gas inventory) that are calculated based on firm revenue. The cost or commodity price of natural gas is a factor in determining firm revenue and is therefore appropriately established in a rate case.

B. The Parties' Recommendations

Initially, CenterPoint proposed $9.588 per dekatherm (Dkt) while the Department and Energy CENTS proposed $8.515 per Dkt. and $8.98/Dkt. respectively. After exchanges of testimony and provision of additional information by CenterPoint, these parties reached consensus that the commodity price of natural gas should be set at $9.052 Dkt.

C. The ALJ's Recommendation

The ALJ found that the parties' proposed commodity price of natural gas should be approved. No party filed an exception to the ALJ's recommendation.

D. Commission Analysis and Action

The Commission finds that the ALJ's recommended commodity cost of natural gas, $9.052 per Dkt, is reasonable and well supported in the record. The Commission will adopt it.

XI. Rate Case Expenses

A. CenterPoint's Proposal

CenterPoint proposed to recover 1) $1,182,275 for costs of the current rate case; and 2) $554,167, the unamortized balance of the 2004 rate case costs, plus carrying costs on that amount. The Company proposed that the total be amortized over two years.

B. The Department's Comments

The Department objected that the Company's estimate of current rate case costs was too high, especially in the area of outside legal fees, agency billings, and ALJ billings. The Department stated that the correct amount was $990,565.

The Department also objected to including the unamortized rate case amounts approved in the previous rate case. The Department stated that unamortized rate case amounts do not belong in the test year.

The Department also noted that the Company had not allocated any of the rate case expenses to the Company's non-regulated operations and proposed that the Company's General Allocator (27.3 percent) be used to allocate $270,424 to non-regulated operations, thereby removing that amount from the Company's test year expenses.

Finally, the Department objected to the Company's proposed two-year amortization period. The Department argued that the amortization period should be the average time between rate cases since 1977, i.e., four years.

C. CenterPoint's Response

CenterPoint denied that the rate case costs projected for this case were overstated. The Company noted that the settlement reached in the previous rate case resulted in lower costs for that case in the three areas identified by the Department.

CenterPoint also disagreed that any rate case expenses should be allocated to non-regulated business operations. The Company argued that the costs of this rate case are directly related to regulated operations and should be directly assigned to the regulated business and placed in the regulated business' test year expenses.

CenterPoint continued to assert that a two-year period was consistent with its most recent history but withdrew its request to include previously unrecovered prior rate case expenses in the current case.

D. The ALJ's Recommendation

1. Amount of Expenses

The ALJ approved including the rate case expenses projected by CenterPoint: $1,182,275. The ALJ noted that the lower amount proposed by the Department was based on the lower rate case expenses in the 2004 rate case, which was resolved by settlement. The ALJ noted that very few issues were agreed to in the current rate case and that as a result rate case expenses can be reasonably expected to be higher in this proceeding. The ALJ found the Company's proposed level of rate case expense reasonable and recommended that they be included as expenses.

2. Allocation Issue

The ALJ concluded that CenterPoint's rate case expenses must be allocated between regulated and unregulated operations. The ALJ stated that of all the other rate matters surveyed, the most similar is Great Plains. In that matter, the ALJ stated, Great Plains' general allocator was applied since no direct identification of costs was possible and significant issues were addressed regarding the interplay of regulated and non-regulated business units in that matter. Applying similar standards, the ALJ found that application of CenterPoint's general allocator of 27.3 percent in this matter was appropriate.

3. Length of Amortization Period

Noting that the two-year period was supported only by the opinion of CenterPoint witnesses regarding possible future rate filing, the ALJ found the Company's proposed two-year amortization period inadequately supported in the record. Instead, the ALJ approved the Department's recommended four-year amortization period, noting that four years is the average period between rate filings either going back to 1977 or with reference to the Company's rate filings from 1993 onward. In addition, the ALJ found that the record revealed several significant changes in CenterPoint's financial situation that prompted this rate case, none of which were likely to be repeated in the near term.

4. Unrecovered Rate Case Costs From Prior Rate Case

The ALJ stated that if CenterPoint had not withdrawn its request to recover the unamortized rate case costs from the 2004 rate case, she would have recommended that the request be denied, consistent with the Commission's recent decision in the Great Plains rate case.[8]

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[8] *In the Matter of a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-004/GR-04-1487, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (May 1, 2006) at 15.

E. CenterPoint’s Exceptions

CenterPoint argued that the ALJ’s recommendation to allocate a portion of the rate case expenses to the Company’s unregulated operations violated basic cost allocation principles and is not supported by the record. The Company argued that the costs of this rate case are not general corporate costs, but are directly related to regulated operations and therefore should be directly assigned to the regulated business.

If the Commission were to rule that some portion of rate case expenses should be assigned to non-regulated operations, CenterPoint argued, the amount assigned should be based on the amount of time the Department’s witnesses spent reviewing the allocation of expenses issue.

CenterPoint also took exception to the ALJ’s recommendation of a four-year amortization period. The Company argued that taking the average of intervals between rate cases is misleading since in this case the average is skewed by two unusually long intervals (ten years and nine years) and that it does not expect such anomalies in the foreseeable future. The Company stated that the two-year amortization period is consistent with the most recent history and should be adopted here.

F. Commission Analysis and Action

1. Amount of Rate Case Expenses

The Commission finds that the ALJ’s recommendations on the rate case expense issues are sound and well supported in the record. The Commission finds that it is likely, as the Company argued, that since few issues have settled in this case the rate case expenses will be higher than in the previous rate case where there was a settlement. The ALJ and Company’s proposal for rate case expenses ($1,182,275) is reasonable and will be adopted.

2. Allocation to Non-Regulated Operations

Regarding whether a portion of rate case costs should be allocated to CenterPoint’s non-regulated operations and hence not included in test year expenses recoverable from ratepayers, CenterPoint’s exception is not well taken. The Commission finds that allocation of a portion of the rate case expenses to the utility’s non-regulated operations has been ordered or approved consistently in previous rate cases where, as here, the utility has significant non-regulated operations. As the Department noted, the Commission has approved – or, in the case of settlement, accepted – such an adjustment in the following general rate cases: CenterPoint Energy, Docket No. G008/GR-95-700; CenterPoint Energy, Docket No. G008/GR-04-901; Great Plains, Docket No. G004/GR-04-1487; Minnesota Power, Docket No. E015/GR-94-001; Northern States Power Company, Docket No. G002/GR-97-1606; and Northern States Power Company, Docket No. G002/GR-04-1511.

Allocation of some share of the rate case expenses to CenterPoint’s non-regulated operations is appropriate and indeed is necessary to ensure fair and equitable rates because CenterPoint's allocation system significantly affect the preparation, presentation and review of rate case financial information.

On the question of what portion of the rate case expenses should be allocated to CenterPoint's non-regulated operations, the Commission finds that the Company's general allocator (27.3 percent) is appropriate to apply to these expenses, consistent with the Commission's view that the rate case expenses are in the nature of general corporate costs (like rent and personnel costs that are shared between regulated and non-regulated parts of the Company) that benefit the viability of both the regulated and non-regulated operations.

In lieu of using the general corporate cost allocator, the Company suggested that the percentage of rate case expenses allocated to non-regulated operations should be calculated by comparing the length of the Department's testimony on the allocation issue to the Department's total testimony: 4.4 percent. The Company has shown no logical link between the length of the Department's testimony on this issue and the nature of the costs in question, i.e. general corporate costs. In these circumstances and in the absence of a more precise allocation rationale and method, the general allocator serves as a reasonable indicator for the amount of rate case costs appropriately attributable to the Company's non-regulated activities.

3. Length of Amortization Period

The Commission finds that the ALJ's recommendation is sound and will adopt it. Based on the record and the ALJ's rationale, a four year amortization period for the Company's rate case expenses is appropriate.

XII. Pension Expense

A. CenterPoint's Proposal

CenterPoint proposed test year pension expense based on pension costs that were actuarially determined by Hewitt Associates using the Company's participant demographics and actuarial assumptions consistent with those used by the parent company, CPE, which administers the Company's pension funds.

CenterPoint disagreed with the Department's recommendation to normalize pension expense by averaging historical pension expense from 2001 through 2004. The Company stated that the best method available for predicting pension expense should be used, which it argued was an actuarial determination based on specific test year assumptions. The Company argued that since pension expense is an annual expense, it can be computed based on facts such as the actual return on assets experienced in the prior year, the number of participants and their demographics, and interest rates in effect. By contrast, the Company stated, rate case expense is normalized because that is not an annual cost.

B. The Department's Recommendation

The Department stated that it did not challenge the actuary's determination of pension expense for 2006. However, the Department recommended that pension expense be normalized or levelized over a four year period, which is consistent with the amortization period for rate case expense. The Department recommended using a levelized amount for ratemaking purposes because of the Company's historical recovery versus actual pension expense. For instance, the Department stated, during 2004 and 2005 CenterPoint recovered pension expense from ratepayers when it was not required to make contributions and has not always made voluntary contributions.

The Department argued that an actuarial determination is appropriate for Securities and Exchange Commission (SEC) reporting, but not for ratemaking purposes because of the Company's historical recovery versus actual pension expense.

C. The ALJ's Recommendation

The ALJ quoted from a 2004 Interstate rate case cited by the Department. In that case, the Commission had accepted a Settlement which included an agreement to levelize pension expense over a five year period. In its Order, the Commission stated:

> Levelizing is standard ratemaking treatment of anomalies in test year expenses.[9]

The ALJ found that the Department had shown that CenterPoint's recent pension expenses are anomalous and that an actuarial forecast is not consistent with its past experience in pension funding. Under these circumstances, the ALJ found, the levelizing approach from the 2004 IPL Order is appropriate to determine the pension rate expense. The ALJ recommended that CenterPoint's test-year revenue and administrative expense should be reduced by $220,797 to adjust the pension expense using the levelizing methodology proposed by the Department.

D. Center Point's Exception

CenterPoint argued that the ALJ recommendation to use a levelizing method rather than the Company's actuarially based proposal must be rejected for two reasons.

First, CenterPoint objected that the ALJ recommendation ignores the undisputed actuarial determination of the appropriate pension expense which formed the basis of the Company's filing. This actuarial determination of pension expense formed the basis of the base year costs, as well as test year costs in this filing. The Company noted that in its most recent rate case, the Commission had approved the Company's use of the actuarial determination of these expenses, as the appropriate basis for setting rates.

Second, CenterPoint argued that the ALJ's recommendation runs contrary to the very recent Commission precedent on this issue established in the current Xcel electric rate case, Docket No. E-002/GR-05-1428. In that case as in this case, the Company stated, the Department had argued for a "levelizing methodology" for FAS 106 expenses, expenses which, like pension expenses, are based on actuarial determinations. The Department argued, in the Xcel case as now, that the levelizing methodology was consistent with the above cited 2004 Interstate Order. Docket No. E-001/GR-03-767. In the Xcel case, CenterPoint argued, the Commission appropriately rejected the levelizing methodology, finding the actuarial determination reasonable and appropriate.

E. Commission Analysis and Action

The Commission will not adopt the ALJ's recommendation in this case. The Commission's above-quoted language in the 2004 Interstate rate case regarding levelization is not binding

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[9] *In the Matter of a Petition by Interstate Power and Light Company for Authority to Increase Electric Rates in Minnesota*, Docket No. E-001/GR-03-767, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER MODIFYING SETTLEMENT (April 5, 2004) at 25.

precedent for this case. Recently, the Commission has issued an Order in another rate case addressing the actuarial versus levelizing issue. In that Order regarding Xcel's electric rate case, the Commission rejected the levelizing methodology proposed by the Department, finding the actual determination reasonable and appropriate.[10]

The Commission believes that the best predictor of test-year pension expenses should be used. In this case, the pension expenses proposed by CenterPoint were actuarially determined by Hewitt Associates, using CenterPoint's participant demographics and actuarial assumptions consistent with those used by its parent, CPE. The pension costs were computed following the principles required by Financial Accounting Standard ("FAS") No. 87, "employers' accounting for pensions." This is consistent with how pension costs were determined in both the base year and in the Company's last rate case.

Actuarial determination of pension expense for 2006 provides a reasonably accurate predictor of test year expense for that year. No party contested the Company's actuarial determination of pension expense for 2006. In these circumstances, it would be inappropriate to discard the actuarial determination of pension expense for the test year on the grounds that past levels of funding have not matched the level of expense built into rates in recent years.

XIII. Corporate Cost Allocation From Parent Corporation

A. CenterPoint's Proposals

In its initial filing, CenterPoint explained that it incurs expenses for certain centralized corporate oversight services it receives from its parent corporation. The services include executive oversight, finance, corporate planning, legal, corporate communications, human resources, regulatory and government affairs. The Company sought to include in the 2006 test year corporate allocations approximately $2 million higher than in the base year. The Company stated that $1.2 million of that increase resulted from the parent company's sale of Texas Genco because without Texas Genco its fixed corporate costs were allocated among fewer business units.

In response to the Department's opposition to the Company's initial proposal, CenterPoint presented an alternative: (1) the Company applied inflation to 2004 actual costs and (2) made adjustments for known and measurable changes from 2004 to 2006. The total was then adjusted by the 2006 allocation factors. The impact of the alternative proposal was a reduction of $0.7 million from the original filing.

B. The Department's Recommendation

The Department concluded that the Company's original proposal and its alternative proposal both suffer from the same lack of support for the costs charged to Minnesota in 2004, and proposed to be charged to Minnesota in 2006, on a detailed cost, activity, and service basis.

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[10] *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-05-1428, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER; ORDER OPENING INVESTIGATION (September 1, 2006) at 16.

The Department disputed CenterPoint's characterization of the impact of the sale of Genco. The Department argued that while Minnesota's share of the cost of individual corporate activities previously allocated to business units including Minnesota and Texas Genco might somewhat increase, the total allocable costs associated with each of the activities could reasonably be expected to decrease, rather than increase, with the sale of Texas Genco.

Regarding CenterPoint's alternative proposal, the Department stated that the Company still did not adequately support the overall projected cost of various corporate activities. The Department opposed the methodology underlying the Company's alternative proposal. The Department argued that it is unreasonable to determine the level of corporate costs ratepayers must pay by simply inflating the cost of the services performed in 2004 and adding other increases without first identifying the cost reductions associated with each service provided in 2004 that will either be discontinued in 2006, or (due to the sale of Texas Genco) provided in 2006 for a smaller corporation.

The Department recommended that the Commission disallow $2,080,683 of the corporate expense allocations included in the test year. The Department calculated the disallowance by first recalculating the Composite Ratio Formula factor which was applied, along with other allocation factors used by CPE, to cost levels for individual activities.

In response to the Company's allegation that the Department was merely comparing 2004 corporate expenses with 2006 corporate expenses in the same categories and selecting the lower number, regardless of the year, the Department stated that its approach was to determine what costs, if any, could be established and shown to be reasonable. The Department stated that in its analysis of CenterPoint's 2006 cost information, the Department concluded that a 2006 cost was justified if any support was provided for that cost. The 2004 costs were only used when the alternative was for the Department to recommend no recovery of that cost.

C. The ALJ's Recommendation

The ALJ found that the Department demonstrated that its comparison of 2004 to 2006 was comprehensive and resulted in supported and reasonable costs being included in the rate determination. The ALJ concluded that CenterPoint did not meet its burden to demonstrate the reasonableness of its claimed expenses allocated from its parent corporation and that the Department's analysis supports a reduction of $2,080,683 for corporate expenses.

D. CenterPoint's Exception

In its exception to the ALJ's conclusion and findings, CenterPoint reiterated its previous criticism of the Department's proposed $2,080,683 reduction of corporate expenses. The Company asserted that the Department reached its recommendation regarding corporate costs by a process of identifying which corporate cost figure was lower - 2004 or 2006 - and incorporating the lower number into its final recommendation. The Company asserted that the Department's approach, which was approved and adopted by the ALJ, was motivated by its mistaken belief that total corporate costs from 2004 to 2006 had increased. In fact, the Company stated, total corporate costs decreased between these years.

Moreover, CenterPoint argued, the Department's approach of constantly selecting the lower number resulted in the Department inadvertently disallowing nearly $500,000 in safety and informational advertising, a failure not mentioned by the ALJ.

CenterPoint requested that the Commission adopt the Company's proposed findings and approve the Company's proposed corporate allocations.

E. Commission Analysis and Action

The Commission finds that the ALJ properly relied on the analysis provided by the Department in its Reply Brief which rebuts the contention that CenterPoint has reiterated as an exception to the ALJ's finding and conclusion on this issue, i.e., that the Department had used an unreasonable "pick and choose" approach to test year corporate costs.

Regarding the Department's proposal, a review of the record shows, as the ALJ found, that the Department made a comprehensive analysis and allowed for an increased allocation to Minnesota in every category where there was any support. The Department explained that instead of recommending total disallowance of the corporate allocation costs included in the Company's proposed rates, the Department used 2004 and/or 2006 figures to calculate an adjustment to the Company's unsupported proposed test year costs. In other words, the Department gave the Company the benefit of the doubt if any logical justification was provided and used 2004 figures as a proxy only when asserted 2006 costs were unsupported costs.

The Department's use of both historical allocated costs and projected allocated cost levels actually allows for a reasonable level of corporate allocations to be included in rates. Specifically, it allows for increased allocations to Minnesota as a result of inflation, an increase in allocation percentages, and changes in certain types of corporate services provided to Minnesota.

Regarding CenterPoint's exception claiming that the ALJ, by adopting the Department's recommendation, inadvertently disallows significant safety and informational advertising, the Commission finds that the ALJ's decision does not have the result the Company has attributed to it. The Department's recommended adjustment to costs included in proposed rates as corporate allocations expense does not affect advertising expense costs included in proposed rates. The Department recommendation did not disallow the safety and advertising expense—it simply moved the same amount of test year corporate advertising to advertising expenses versus corporate allocation expenses.

XIV. Rate Case Filing Requirement

The Department reported a concern that CenterPoint adopted a new accounting system on January 1, 2004 but that the financial information CenterPoint relies on in this rate matter was presented in the format of the prior accounting system. The Department noted that this transition resulted in considerable difficulty in attempting to trace the difference between the financial information as classified for Minnesota by the corporation for reporting to the Securities and Exchange Commission and as classified for regulatory purposes on the Minnesota financial statements used as the basis for this rate case.

To address this concern, the Department recommended that the Commission require CenterPoint to present the financial information included in the Company's next Minnesota rate case filing in a manner which reconciles the base year information, each proposed rate case adjustment, and the test year information from the Balance Sheet and Income Statement accounts used for SEC reporting purposes and the appropriate Federal Energy Regulatory Commission (FERC) accounts.

The Commission finds that the Department's proposal is reasonable and likely to assist the efficient administrative review of certain rate case issues. The Commission will adopt the Department's recommendation and direct the Company in its next rate case to present the financial information in the manner recommended by the Department.

XV. Allocations Between CenterPoint's Regulated and Non-Regulated Operations

A. CenterPoint's Revised Proposal

To address the Department's concerns, CenterPoint calculated bad debt and inflation for the non-regulated area as well as a corresponding non-regulated adjustment for each of the regulated adjustments. The result is a revised general allocator of 72.52 percent versus a filed calculation of 72.75 percent. The impact on the test year is a reduction of $26,602. The Company also agreed to allocate corporate legal costs as recommended by the Company.

B. The Department's Recommendation

Regarding CenterPoint's revised proposal, the Department stated that it conducted further analysis on the additional information provided by CenterPoint to support the proposed allocation of costs between regulated and non-regulated operations. The Department concluded that the information was insufficiently detailed to confirm CenterPoint's proposed allocation factor.

The Department recommended an allocation factor of 71.2 percent, thereby reducing the level of generally allocated costs included in the test year by $368,767. The Department also reported improperly allocated legal expenses and recommended reducing the allocated corporate legal costs by $182,132.

C. The ALJ's Recommendation

The ALJ found that the record supports the 71.2 percent test year general allocation factor determined by the Department, with a resulting test year adjustment of $368,767. The ALJ also found that the Department had demonstrated that CenterPoint improperly allocated legal expenses between the regulated and unregulated business operations of CenterPoint. The ALJ noted that the Department's analysis included adjustments to provide proper allocation between those business operations. Finally, the ALJ found that an additional adjustment of $186,132 for improperly allocated legal expenses was appropriate.

D. Commission Analysis and Action

The Commission finds that the ALJ's findings and recommendation regarding the allocation of costs between regulated and non-regulated operations are reasonable and supported in the record. No party took exception to the ALJ's findings on this subject. The Commission will adopt them.

XVI. Conservation Improvement Program Tracker and Amortization Period

A. Background

CenterPoint operates Conservation Improvement Program/Demand Side Management projects (CIP projects) as part of its efforts to improve customer conservation. The Company submits its CIP biennially to the Department for consideration and approval by the Commissioner of Commerce.

The Company's CIP for 2005-2006 was approved on November 30, 2004.

Costs to the CIP program are recovered by utilities through a conservation cost recovery charge (CCRC). CenterPoint's costs incurred in CIP projects, less the revenue obtained through the CCRC, are netted out through the CIP tracker balance which is trued-up in each rate case.

B. CenterPoint's Proposal

CenterPoint proposed amortizing the tracker account balance over a two-year period, to be consistent with CenterPoint's anticipated filing of its next rate matter. The Department accepted the tracker balance and proposed test year expenses, but initially objected to the restatement of the tracker balance, whereby CenterPoint applied the finally approved adjustment to the CCRC over the interim rate period.

The Department withdrew its objection after it acknowledged that CenterPoint's restatement resulted from a refund of $388,652 to ratepayers, but continued to object to CenterPoint's proposed recovery of expenses by amortizing the tracker balance over two years. The Department maintained that a four-year amortization period was the correct approach.

The Department also maintained that CIP expenses should be allocated across customer classes by throughput. The throughput method was adopted in five recent gas rate cases. The Department also recommended that all Minnesota ratepayers be treated equally by allocating the CIP costs among rate classes on a volumetric basis.

C. The ALJ's Recommendation

The ALJ found that the simplest method for account recovery, offsetting the CIP tracker account balance against any interim rate refund required in this matter, is the appropriate means of truing up that balance. Any remaining balance, the ALJ found, should be amortized over a four-year period, as recommended by the Department, consistent with the rate case expense amortization period. Since the benefits of conservation are experienced across all rate classes, the ALJ reasoned, CIP costs should be allocated among rate classes on a volumetric basis, reflecting this benefit.

D. Commission Analysis and Action

The Commission finds that the ALJ's findings and recommendation regarding the CIP tracker and amortization period are reasonable and supported in the record. No party took exception to the ALJ's findings on this subject. The Commission will adopt them.

XVII. Payment Processing Equipment

A. Background

As part of its transfer of billing operations to Houston, Texas, Center Point also transferred its cash remitting processing equipment to Center Point Energy Service Co., which began providing the cash remittance processing for the Company and allocating costs to the Company for that service. The Company retired the equipment in January 2006. These developments occurred after filing this rate case and after the beginning of the test year.

B. The Department's Recommendation

The Department recommended that Center Point's proposed rate base be reduced to reflect the fact that the cash remittance equipment has been retired and is no longer on the Company's books. The Department maintained that including amounts in rate base for billing system equipment is unreasonable because it would not account for a known substantial change in the Company's rate base. The Department also recommended reducing the Company's income statement by $66,000 to account for the reduction in costs related to the cash remittance operation now being performed in Houston, Texas by Center Point Energy Service Co. rather than by the Company in Minneapolis.

C. CenterPoint's Position

CenterPoint argued that cash remittance processing is no different from hundreds of other issues in the rate case in that during the course of the test year, some issues will see changes that positively impact the Company's financial picture while others will see changes that negatively impact the Company's financial picture. The Company argued that it is inappropriate and unreasonable to isolate one issue (here, cash remittance processing) that works to the Company's financial detriment without considering issues such as continually rising interest rates or rising gasoline prices which, if considered, would increase the Company's expenses.

D. The ALJ's Recommendation

Consistent with her previous recommendation to adjust the rate base starting point to account for known significant changes, the ALJ found that where known significant changes can be identified, adjustments to the underlying figures are appropriate. The ALJ therefore concluded that the Department's proposed exclusion of the cash remittance equipment is appropriate.

E. Commission Analysis and Action

The Commission finds that the ALJ's findings and recommendation to exclude the cash remittance equipment from rate base are reasonable and supported in the record. No party took exception to the ALJ's findings and recommendation on this subject. The Commission will adopt them.

In addition and based on the same analysis and reasoning, the Commission will adopt the Department's related recommendation to reduce the income statement expenses by approximately $66,000 to reflect the reduction in costs related to the cash remittance process being done in Houston, Texas instead of Minneapolis.

XVIII. Recovery of the Gas Cost Part of Bad Debt Expenses Through the Purchased Gas Adjustment (PGA) Mechanism

A. CenterPoint's Initial Proposal

CenterPoint proposed to separate its uncollectible accounts (bad debt) into two parts. The first part would be the uncollectible amount attributable to basic service and distribution charges. The second part would be the uncollectible amount attributable to the cost of gas.

The Company proposed to recover, with an annual true-up, the gas cost portion of these uncollectible accounts (net of related late payment charges) through the Purchased Gas Adjustment (PGA) mechanism.

B. The Public Agencies' Recommendation

The Department and the RUD-OAG recommended the Commission deny CenterPoint's request to recover the gas cost portion of its bad debt expense through the PGA on grounds that CenterPoint's proposal is inconsistent with Minnesota statutes and rules. They argued that this would be contrary to the definition of recoverable expenses that are allowed this kind of cost recovery treatment under Minn. Stat. § 216B.16, subd. 7.

C. The ALJ's Recommendation

The ALJ stated that the gas cost portion of the bad debt expense charge proposed by CenterPoint for inclusion in the PGA is not the "direct cost of gas" within the meaning of Minn. Stat. § 216B.16, subd. 7. Rather, those charges are indirect, having come from the customer's failure to pay. The appropriate mechanism for recovering bad debt expenses remains through the rates charged to customers, determined through the test year methodology.

The ALJ noted the Stipulation between CenterPoint and Energy Cents in which the proposal to recover costs through the PGA was withdrawn. Regardless of the stipulation, the ALJ stated, inclusion of the costs in the PGA would be inappropriate.

D. CenterPoint's Exception

CenterPoint argued that in light of its agreement as part of its Stipulation with ECC to withdraw its request for a bad debt recovery mechanism, the ALJ's finding that such a mechanism would not be appropriate is unnecessary and inappropriate. CenterPoint urged the Commission to reject the ALJ's finding and instead to address PGA recovery of these costs in the future, should the Company renew its proposal in a future docket.

E. Commission Analysis and Action

The Commission finds that the issue has been properly presented, briefed, and argued. The record is adequately developed to make a decision. CenterPoint has not offered any argument to contradict the analysis presented by the RUD-OAG, the Department, and the ALJ on the merits of the issue. In these circumstances, the Commission finds no value in deferring a decision on this matter and in fact finds administrative efficiencies in not leaving the question open, thereby requiring the redundant record preparation by parties in future dockets.

Accordingly, the Commission will proceed to adopt the ALJ's position and reject CenterPoint's proposal to recover bad debt expense related to its gas costs through the purchased gas adjustment mechanisms on the grounds that CenterPoint's proposal is contrary to the definition of recoverable expenses that are allowed this kind of cost recovery treatment under Minn. Stat. § 216B.16, subd. 7.

XIX. Sales Forecast

A. Background

Both CenterPoint and the Department of Commerce presented complete sales forecasts in this proceeding. The Company agreed that given the closeness of the Department's forecast to that of the Company, the Department's forecast may be used as the basis for setting rates in this proceeding. The ECC also stated that it would be satisfied to use the Department's forecast in this case rather than the Company's.

The Company added that while it continues to have policy differences with the Department related to sales forecast issues, those issues need not and should not be explicitly addressed in this proceeding. Instead, the Company stated, those issues (such as the appropriate period to use for normal weather) could and should be deferred to another proceeding where they may have more substantial impact, leading the parties to develop a more complete record for the Commission's review.

B. The ALJ's Recommendation

The ALJ recommended using the Department's forecast in this case. The ALJ stated:

> The Department forecast of the total volume of CenterPoint's natural gas sales, using a twenty-year methodology, as 157,963,000 Dkt [dekatherm] in the test year is reasonable. There is insufficient evidence in the record to address whether the 10-year average forecast methodology is superior to the 20-year average methodology. Use of the Department's forecast requires an increase in the cost of gas of $1,469,040 and an increase in operating revenue of $1,717,070. These changes result in a net required revenue reduction of $248,030. [Conclusion 6.]

C. Commission Analysis and Action

The Commission finds the ALJ's recommendation sound and will adopt it with the clarification that the figures produced in the Department's sales forecast are approved for use in this case, but that this approval is specific to the facts of this case and sets no precedent for future rate cases regarding the methodology used by the Department in reaching those figures.

XX. Gas Technology Institute - Research & Development Expenses

A. Background

CenterPoint proposed to include $250,000 in the test year specifically designated for Gas Technology Institute (GTI) research and development. The Company stated that this money would support projects directly related to distribution plant safety and integrity only, such as tool development for small diameter core excavations, Pipeline Integrity Assessment and Distribution Integrity tools and techniques, and safety related operations technologies.

The Department raised a concern that the Commission approved a settlement in CenterPoint's 2004 rate case that included $250,000 in test year expenses for the purpose of funding GTI research and although CenterPoint has been collecting approximately $20,800 per month for GTI research and development since mid-August 2005, the Company has not funded any projects.

CenterPoint responded that for most of 2005, the Company spent time familiarizing itself with projects that GTI was working on to identify those projects which are most proximately related to the Company's particular needs and objectives. The Company stated that it expects to provide future support to GTI projects if the Company's funding proposal is approved in the present docket and intends to make payments at the $250,000 level in 2006 to support GTI projects.

The Department proposed several reporting requirements to promote accountability and facilitate monitoring the GTI expenditures. The Company agreed to all these requirements.

B. The ALJ's Recommendation

The ALJ concluded and recommended as follows:

> CenterPoint's proposed $250,000 expenses for GTI research and development, agreed to by the parties, are reasonable costs for inclusion in the test year. The Commission should direct CenterPoint to establish a separate liability account for these expenses, with a starting balance equal to all revenues collected from ratepayers for GTI project funding from the implementation of interim rates in this ratemaking. Annual expenses for research and development should not be carried over from year-to-year. The Commission should require CenterPoint to submit annual compliance filings on this account, detailing revenues and GTI expenses over the prior period. [Conclusion 19.]

C. Commission Analysis and Action

The Commission finds that the Department's suggested conditions are appropriate and will be very helpful in daylighting the expenditure of this money and the results of the research undertaken. In addition, the Company has agreed that the account will be subject to a true-up at the time of the next rate case and that any unexpended balance would be returned to the rate payers.

The complete set of conditions that will apply to the GTI Research & Development expenses are as follows:

1. CenterPoint will make available for public inspection the status, results, and research and development implications of each GTI project funded under CenterPoint's proposal.

2. CenterPoint will provide, in its next general rate case filing, a report detailing the precise GTI projects funded under CenterPoint's proposal and the results/potential applications of each such project.

3. CenterPoint will establish a liability account that 1) reflects a beginning balance equal to the total revenues collected from ratepayers to fund GTI projects since the implementation of interim rates in this case; and 2) each month applies expense dollars at the level approved by the Commission.

4. The true-up of the liability account to be done with respect to GTI expenses will not allow CenterPoint to collect additional dollars from customers in the event CenterPoint expends more than the $250,000 yearly amount collected from them. The cap of $250,000 applies individually to each year, so that expenditures of more than $250,000 in one year will not be netted with expenditures of less than $250,000 in another year included in the true-up.

5. CenterPoint will make compliance filings, on or before May 1 annually, with a detailed listing in the liability account of GTI expenses and revenues for the previous reporting period.

In light of these detailed conditions, the Commission will approve including the $250,000 GTI research and development expenses in the test year, as requested by the Company.

XXI. Fleet Expense - Cost of Gasoline

A. CenterPoint's Proposal

CenterPoint's initial filing included a "fleet adjustment" reflecting an increase in the per gallon cost of gasoline between the base year and the test year. The adjustment also reflects an increase in miles driven. No party challenged the increase in miles driven.

CenterPoint projected gasoline to cost $2.56 per gallon over the test year, based on the average Minnesota price for regular gasoline on August 29, 2005 as published by the Energy Information Administration of the U.S. Department of Energy (EIA). CenterPoint projected its test year price ($2.56) assuming gasoline prices would remain consistent with average prices published for Minnesota at the end of August 2005.

B. The Department's and Energy CENTS's Recommendations

The Department objected to CenterPoint's use of the price of gasoline on one single day (August 29, 2005) to determine the reasonable cost of gasoline for the test year. Based on the Department of Energy's (EIA's) projected average of $2.42 per gallon for the 2006 test year, the Department increased its recommended cost of gasoline from $2.21 to $2.46 per gallon.

Energy CENTS recommended using the 2005 weekly average price as the test year price.

C. The ALJ's Recommendation

The ALJ concluded that CenterPoint had demonstrated that the price of gasoline for the test year is likely to exceed the forecasted levels when using the Department's methodology. Put another way, the ALJ stated, the usual forecasting methodology results in an anomalous result. Under such limited circumstances, the use of a benchmark high price within the forecast period is sufficient support for determining the price in the test year. Fleet expenses should be calculated using the $2.56 per gallon projected gasoline cost over the test year.

D. Commission Analysis and Action

The Commission finds the methodology used by the Department in determining its recommendation sound and will therefore adopt the Department's recommended price, $2.46, rather than the ALJ's recommended price, $2.56. The Commission finds that it is more reasonable to base the gasoline price factor used in determining 2006 test year fleet expenses on EIA's projected average for the 2006 test year as recommended by the Department than to base it on the average Minnesota price for regular gasoline on a single day, August 29, 2005, as recommended by the Company and the ALJ.

XXII. Cost of Capital

In setting rates, the Commission provides an opportunity for a prudently-managed utility to recover its costs and earn a return sufficient to enable the utility to continue to attract investment.[11] The preceding discussion addressed the calculation of some of CenterPoint's costs. This discussion will address the calculation of CenterPoint's cost to borrow money, as well as the cost of providing a reasonable return on investment.

There are various forms of investment – long-term debt, short-term debt and equity – each with its own advantages and disadvantages. Corporations pay debt holders (bondholders) a fixed sum on a fixed schedule. Corporations pay equity holders (shareholders) out of their profits after all other expenses – including interest due to bondholders – have been paid. Equity financing is desirable because it does not impose the payment schedules of debt financing, but shareholders demand a higher average return to compensate them for the risk they bear of not being paid. Debt financing is desirable because it's cheaper than equity financing, but the demands to make regular payments impose a greater threat to the utility's solvency and ability to pay dividends. Long-term debt is desirable because it need not be paid as quickly, but lenders typically demand a higher interest rate for bearing the greater risk of not being repaid. Typically, short term debt has the advantage of being cheaper, but it must be repaid sooner.

The Commission sets rates for CenterPoint based on imputed costs of debt, costs of equity and capital structure. Corporations maintain records about the amount of equity investment that has been made and the amount of debt that has been issued on the corporation's behalf. But, as noted above, CenterPoint Energy Minnesota Gas (CenterPoint) is not a separate corporate entity, but rather an operating division of a larger entity. Because the parent company's capital structure may differ from that of a prudently managed gas utility, the Commission must estimate CenterPoint's capital costs by considering the costs of comparable firms.

The Commission has previously ordered CenterPoint to maintain a ratio of approximately 50 percent debt and 50 percent equity, and to conduct its operations in the manner to maintain an A-level bond rating.[12] Bond ratings are designed to measure a firm's risk of defaulting on debt payments.

A. Cost of Debt

Based on an analysis of the amount of borrowing the parent company has conducted on CenterPoint's behalf and the cost of debt for A-rated gas utilities, both CenterPoint and the Department recommended calculating CenterPoint's cost of long-term debt at 5.78 percent and cost of short-term debt at 5.20 percent. No party opposed this calculation, and the ALJ recommended approval.

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[11] *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 693 (1923); *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

[12] See *In the Matter of an Inquiry into Possible Effects of the Financial Difficulties at Reliant Energy, Inc. on Reliant Energy Minnegasco and its Customers*, Docket No. G-008/CI-02-1368, ORDER REQUIRING FILINGS TO PROTECT MINNESOTA RATEPAYERS (April 8, 2003).

The Commission finds the positions of the parties and the ALJ to be grounded in substantial evidence in the record, and their arguments to be persuasive. The Commission will calculate CenterPoint's debt costs based on the proposed rates.

B. Cost of Equity

1. Background

CenterPoint and the Department both conducted comprehensive analyses of the cost of equity using the Discounted Cash Flow (DCF) analysis on which the Commission has historically relied. This analysis is premised on the idea that investors will bid up the price of a stock until it equals the present value of all future cash flows expected from the stock. These flows come from current dividends and from estimates of dividend growth in the future. Some analysts forecast a constant growth rate, while others forecast a varying ("multi-stage") growth rate. With information about a corporation's stock price, dividend payments and prospects for growth, analysts can estimate the return on investment necessary to continue to induce investors to buy a stock at market prices.

To estimate the prospects for growth, CenterPoint and the Department relied on the work of professional industry analysts. The Department developed its estimate using an estimate of a constant growth rate. CenterPoint conducted multiple analyses, variously using a constant growth rate, a multi-stage growth rate, and an estimate of the growth in the Gross Domestic Product (GDP).

Estimating stock price and dividend, however, proves more challenging because CenterPoint has no shares being traded in a stock exchange, and pays no publicly reported dividend. As a substitute, the parties must analyze shares and dividends from comparable firms and observe their ratios of dividends to stock price.

2. Positions of the Parties

CenterPoint developed two lists of firms it deems comparable to CenterPoint. These lists had average projected growth rates of 6.4 percent and 4.6 percent, respectively. CenterPoint proceeded to use these growth rate estimates, as well as an estimate of the rate of growth in the GDP, to conduct its DCF analyses.

CenterPoint initially used both the constant growth and multistage growth DCF models in its analysis but discarded the results of the constant growth model because CenterPoint concluded the estimated return was unrealistically low. An analysis based on CenterPoint's assumption about multi-stage growth supported a return on equity of 10.0 percent to 10.6 percent. A second analysis assuming that the industry would grow at the rate of the GDP supported a return on equity of 10.4 percent to 11.0 percent. Together, CenterPoint argued that these two analyses supported a return on equity of 10.0 percent to 11.0 percent. CenterPoint then added a premium to this result designed to compensate investors for the added risk of investing in the natural gas business, resulting in a range of 10.75 percent to 11.25 percent. Finally, CenterPoint argued that the top end of the range, 11.25 percent, was the reasonable cost of equity due to risks and uncertainty in the natural gas business.

The Department also developed a list of comparable firms. The Department selected all the U.S. natural gas distribution companies listed in the Standard & Poors index with publicly traded shares, currently paying dividends, having approximately an A bond rating, and that receive at least 70 percent of their revenues from regulated local gas distribution. The Department then excluded firms that were facing some extraordinary circumstances that would affect their stock price or operations. Ultimately, every firm that the Department selected for its list was also a firm that CenterPoint had selected. This list had an average projected growth rate of 5.7 percent, within the range of growth rates of CenterPoint's lists.

The Department declined to conduct an analysis on the basis of the GDP, finding no basis to believe that the growth in GDP would be comparable to the growth of regulated gas distribution companies.

Using the growth rate estimate and anticipated dividend yields from this list, the Department estimated that investors would require a return on equity between 9.28 percent to 10.14 percent. The Department declined to add a risk premium to its recommendation, noting that the risk of the natural gas business is already incorporated into the data derived from other natural gas businesses. The Department recommended that the Commission select the midpoint of its range, 9.71 percent.

3. The ALJ's Recommendation

The ALJ conducted a thorough examination of the parties' procedures for estimating their proposed returns on equity. The ALJ determined that the Department's 9.71 percent return was well-grounded, transparent, reasonable, and supported by substantial evidence in the record. Credibility was added to the Department's conclusions by the fact that the Department's analysis was based exclusively on consideration of firms that CenterPoint used in its own analyses, and the Department's forecasted growth rate was within the range identified by CenterPoint.

The ALJ did not find CenterPoint's arguments persuasive. According to the ALJ, CenterPoint's use of multiple forecasting tools, the selective rejection of results, and the additional consideration of risk were all indicative of efforts to substitute judgment for analysis. The credibility of CenterPoint's recommended return on equity of 11.25 percent was undermined by the fact that this return exceeds the top of the range of results from the weighted DCF analysis relied upon by CenterPoint's own expert.

4. Commission Analysis and Action

The ALJ's examination of this issue is carefully considered, closely reasoned, and based on an exhaustive evidentiary record. The Commission will accept and adopt her findings, reasoning, and recommendation to set the return on equity at 9.71 percent.

C. Capital Structure

1. Background

Before the Commission can calculate the revenues CenterPoint needs to finance its operations and attract capital, the Commission must know CenterPoint's capital structure – that is, the amount of financing it receives from long-term debt, short-term debt and equity. Lacking any meaningful way to allocate to CenterPoint the stocks and bonds issued by the parent company, the

Commission must impute to CenterPoint a hypothetical capital structure that a prudently-managed gas utility would have.[13]

2. Positions of the Parties

CenterPoint proposed the following capital structure, based on its forecasts of its average capital structure throughout 2006 and its obligation to operate with roughly 50 percent equity and 50 percent debt:

Component	Proportion
Long-Term Debt	47.27%
Short-Term Debt	2.60%
Common Equity	50.13%
Total	100.00%

The Department noted that CenterPoint has not maintained an average of 50 percent equity throughout the test year and questioned whether CenterPoint would be able to achieve that average by the end of the year. The Department offered two alternative capital structures for the Commission's consideration.

As its primary recommendation, the Department proposed a capital structure based on the record to date, reflecting a lower proportion of common equity:

Component	Proportion
Long-Term Debt	44.31%
Short-Term Debt	12.22%
Common Equity	43.47%
Total	100.00%

Alternatively, if the Commission were persuaded that CenterPoint had a viable plan to achieve an average equity level of 50 percent, the Department would not oppose the adoption of CenterPoint's proposed capital structure. But in this scenario, the Department would recommend that the Commission direct CenterPoint make a filing in 2007 demonstrating that it had in fact averaged 50 percent common equity throughout 2006, and would recommend unspecified consequences if CenterPoint failed to achieve this ratio.

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[13] *In the Matter of the Application of Minnegasco, a Division of Arkla, Inc., for Authority to Increase Its Rates for Natural Gas Service in Minnesota*, Docket No. G-008/GR-93-1090, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (October 24, 1994) at 15-16.

3. The ALJ's Recommendation

Finding CenterPoint's proposal unsupported by the record, the ALJ recommended adoption of either of the Department's proposals. While acknowledging that maintaining a 50 percent equity level has both costs and benefits, the ALJ reasoned that CenterPoint is not entitled to recover from ratepayers the cost of maintaining a 50 percent equity level if CenterPoint does not in fact maintain that level. Ratepayers should not have to bear the costs of a higher level of equity if they don't receive the benefits of lower risk that a higher equity level would provide.

4. Commission Analysis and Action

Again the ALJ's examination of the issue is carefully considered, closely reasoned, and well grounded in the record. On that basis, the Commission finds greater merit in the Department's analysis than in CenterPoint's. Having further reviewed the record, however, the Commission is persuaded that even the Department's analysis can be further refined.

Because CenterPoint has no independent corporate status, the Commission must establish a hypothetical capital structure. Yet this choice cannot be made in isolation from considerations of capital costs. The greater the portion of debt in the capital structure, the riskier the firm and the higher return will be demanded by investors. Conversely, because a firm with a lower proportion of debt is less risky, a lower return on equity is adequate to attract investors.

CenterPoint and the Department developed estimates of equity costs based on data of comparable firms. Their analyses reflected those firms' capital structures. Specifically, the firms analyzed by the Department had an average capital structure of 46.14 percent equity. Because both CenterPoint and the Department found the firms in the Department's list to be appropriate points of comparison to CenterPoint's operations, because these firms provided the basis for establishing the 9.71 percent return on equity, and because these firms have an average capital structure of 46.14 percent equity, the Commission will authorize CenterPoint to recover the resulting cost of equity with respect to 46.14 percent of its capital.

For the foregoing reasons, the Commission will adopt and incorporate the primary capital structure recommended by the Department, except that the Commission will increase the Department's proposed level of equity by 2.67 percent, to 46.14 percent, and will make a corresponding 2.67 percent reduction in the Department's proposed level of short-term debt.

In sum, the Department's primary recommendation is as follows:

Type of Capital	**Proportion**	**Cost**
Long Term Debt	44.31%	5.78%
Short Term Debt	12.22%	5.20%
Common Stock Equity	43.47%	9.71%
Total	100.00%	

The Commission will approve a modified version as follows:

Type of Capital	Proportion	Cost
Long Term Debt	44.31%	5.78%
Short Term Debt	9.55%	5.20%
Common Stock Equity	46.14%	9.71%
Total	100.00%	

D. Overall Rate of Return

The Commission's decisions on capital structure, cost of debt, and cost of equity result in an overall rate of return of 7.54 percent, as set forth below.

Type of Capital	Proportion	Cost	Weighted Cost of Capital
Long Term Debt	44.31%	5.78%	2.56%
Short Term Debt	9.55%	5.20%	0.50%
Common Stock Equity	46.14%	9.71%	4.48%
Total	100.00%		**7.54%**

XXIII. Financial Schedules

A. Gross Revenue Deficiency

The above Commission findings and conclusions result in a Minnesota jurisdictional total gross revenue deficiency of $25,960,000, as shown below:

Revenue Requirement Summary
Test Year Ending December 31, 2006
(000's omitted)

Average Rate Base	$ 611,003
Rate of Return	7.54%
Required Operating Income	$ 46,070
Operating Income	$ 33,781
Income Deficiency	$ 12,289
Gross Revenue Conversion Factor	1.7056
Gross Rev Deficiency before Affordability Program	$ 20,960
Affordability Program	$ 5,000
Total Revenue Deficiency	$ 25,960

B. Rate Base Summary

Based on the above findings, the Commission concludes that the appropriate rate base for the test year is $611,003,000, as shown below:

Rate Base Summary
Test Year Ending December 31, 2006
(000's omitted)

UTILITY PLANT IN SERVICE	
Intangible	$ 443
Production	16,300
Underground Storage	17,396
Other Storage	15,218
Distribution	950,903
General	123,091
Total Utility Plant in Service	$1,123,351
ACCUMULATED RESERVE	
Intangible	$ 442
Production	14,268
Underground Storage	17,146
Other Storage	15,180
Distribution	462,270
General	48,001
Total Utility Plant in Service	$ 557,307
NET UTILITY PLANT IN SERVICE	$ 566,044
OTHER RATE BASE ITEMS	
Gas Stored Underground - Noncurrent	$ 478
Customer Advances	(329)
Accumulated Deferred Income Taxes	(67,993)
Working Capital Requirements	
Materials and Supplies	$ 4,571
Gas Stored Underground - Current	71,996
Liquified Natural Gas Stored	1,477
Liquified Petroleum (Propane) Gas	3,756
Prepayments	515
Other Deferred Debits	(7,615)
Other Cash Working Capital (lead lag study)	38,103
Total Working Capital	$ 112,803
TOTAL GAS RATE BASE	$ 611,003

C. Operating Income Summary

Based on the above findings, the Commission concludes that the appropriate Minnesota jurisdictional operating income for the test year under present rates is $33,781,000, as shown below:

Revenue Requirement Summary
Test Year Ending December 31, 2006
(000's omitted)

OPERATING REVENUE	
Sales of Gas	
Residential	$ 867,059
Commercial and Industrial	385,810
Total Firm	$1,252,869
Dual Fuel	347,013
Transportation	4,267
Other	2,354
Total Sales of Gas	$1,606,503
Late Payment Charges	7,440
Other Operating Revenue	51
Total Operating Revenue	$1,613,994
OPERATING EXPENSES	
Cost of Gas Purchased	$1,383,856
Production	870
Other Gas Supply	1,511
Underground Storage	958
Other Storage	661
Distribution	26,786
Customer Accounts	35,540
Customer Service & Information	9,107
Sales	1,166
Administrative & General	32,517
Maintenance	10,395
Depreciation and Amortization	45,685
Total Operating Exp, Maintenance & Deprec.	$1,549,052
Federal and State Income Taxes	$ 10,511
Deferred Income Taxes	(77)
Investment Tax Credit Adjustment	(464)
Other Taxes	21,191
AFUDC	0
Utility Operating Income	$ 33,781

XXIV. Class Cost of Service Study

While the preceding issues largely pertain to quantifying CenterPoint's costs, the next issues will address how CenterPoint should set its rates to secure adequate revenues to cover those costs and earn a reasonable return on investment. This process of "rate design" requires the Commission to exercise policy judgment because there are many ways to set rates to enable a utility to recover appropriate revenues.

A. Background

The Commission considers many factors in setting rates, including the cost of providing service. The cost of serving one customer will differ from the cost of serving another. But because similar types of customers impose similar types of costs on a utility, utilities find it useful to group customers into classes for purpose of analysis. Utilities learn about how the cost of serving one class of customer differs from another by conducting an embedded "lass cost of service study (CCOSS). Minn. Rules part 7825.4300, subp. C.

CenterPoint conducted a CCOSS in an attempt to identify all the costs caused by each customer class. CenterPoint divides its customers into classes such as General Service/Residential, Commercial and Industrial (subdivided into three categories), Small Volume Dual Fuel (subdivided into two categories), Large Volume Dual Fuel, and Transportation. Dual fuel customers may change their consumption patterns in response to price increases because they have access to other forms of energy. Transportation customers purchase their own supplies of gas and pay CenterPoint merely for the use of CenterPoint's distribution facilities to deliver the gas to the customer's premises.

CenterPoint described its CCOSS model as using cost causation as the controlling element of the cost classification and cost allocation process. CenterPoint proposed using the same model used in its prior rate case – except that CenterPoint changed the method by which the model allocates its liability for paying income taxes.

Specifically, in its last rate case CenterPoint allocated its income tax expenses among the customer classes in proportion to the amount of pre-tax income generated by each customer class. In the current case, CenterPoint proposed to allocate income tax expense on the basis of the amount of undepreciated capital assets ("rate base") associated with serving each class.

Parties disagreed about the merits of this change to the CCOSS.

B. Positions of the Parties

CenterPoint stated that it was motivated to change allocation methods by the fact that the CCOSS shows that two customer classes – the residential and small commercial (Commercial & Industrial Class A, or C&I-A) – lost money during the test year. Under the old allocation method, a negative income would have garnered a negative allocation of tax dollars. That is, the sum of all the tax allocations to all the other classes would be greater than the entire tax allocation to CenterPoint's regulated gas operations. CenterPoint regarded this as unduly burdensome to the other classes.

Instead, CenterPoint allocated income tax costs on the basis of rate base. CenterPoint justified this allocation by arguing that its "required income" is calculated based on its rate base.

ECC and RUD-OAG opposed CenterPoint's change in allocation method on the grounds that a company's income taxes arise as a consequence of the company's income, not its rate base. ECC argued that "required income" is a rate-making concept largely unrelated to calculating tax liability. ECC argued in favor of the allocation method that CenterPoint used in its rate case last year, and noted that CenterPoint's own witness acknowledged that the old allocation method remains a viable alternative.

The Department declined to take a position on this matter.

C. The ALJ's Recommendation

Reasoning that it is equitable to ensure that tax liability is allocated to all customer classes, the ALJ supported CenterPoint's allocation method.

D. Commission Analysis and Action

Income taxes are not caused by rate base. They are caused by income. And, as CenterPoint acknowledges, the purpose of the CCOSS is to identify the costs that each class causes CenterPoint to incur.

CenterPoint is free to argue that it needs to increase rates for residential customers in order to offset the imputed losses it incurs in serving that customer class. And ECC and RUD-OAG are free to argue that those imputed losses are partially offset by reductions in imputed tax liabilities. A well-designed CCOSS should be able to illustrate both arguments.

Because income taxes are caused by income, not rate base, the Commission will decline to adopt recommendations of CenterPoint and the ALJ. The Commission will accept CenterPoint's CCOSS – modified to allocate income tax expenses in proportion to pre-tax income – for informational purposes.

XXV. Apportionment of Class Revenue Responsibility

A. Background

The Commission requires utilities to file a CCOSS because the cost a utility incurs to provide service is one factor the Commission considers in determining how much each customer class should contribute to meeting the utility's revenue requirement, and how to recover each class' share of the revenue requirement from the members of the class. Other factors include economic efficiency; continuity with prior rates; ease of understanding; ease of administration; promotion of conservation, ability to pay; and ability to bear, deflect or otherwise compensate for additional costs.

B. Positions of the Parties

CenterPoint seeks to raise revenues by 2.44 percent (relative to total regulated revenues, including revenues from gas sales). In other words, if the Commission were to agree that CenterPoint needs all of the new revenues requested, CenterPoint would seek to recover a weighted average of 2.44 percent more revenues from each customer class. But CenterPoint, the Department and RUD-OAG have different ideas for how much of the revenue requirement should be recovered from each class, as set forth in Table 1, below.

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
Docket No. G-008/GR-05-1380

TABLE 1: Comparison of Intra-Class Allocation Proposals

Customer Classes	Present billing rate revenues (including gas cost)	CenterPoint Position: Proposed percentage increase	CenterPoint Position: Proposed increase ($)	CenterPoint Position: Propose share of revenue requirement	Department Position: Proposed percentage increase	Department Position: Proposed increase ($)	Department Position: Propose share of revenue requirement	RUD-OAG Position: Proposed percentage increase	RUD-OAG Position: Proposed increase ($)	RUD-OAG Position: Propose share of revenue requirement
Residential	915,688,670	3.31%	30,336,555	55.12%	2.69%	24,632,025	54.78%	2.90%	26,512,873	54.90%
C&I-A	25,763,395	3.32%	855,869	1.55%	2.69%	693,035	1.54%	4.16%	1,071,493	1.56%
C&I-B	64,204,945	1.68%	1,076,645	3.80%	2.69%	1,727,113	3.84%	2.33%	1,497,248	3.83%
C&I-C	308,890,982	1.65%	5,105,958	18.29%	2.69%	8,309,167	18.48%	1.25%	3,858,691	18.22%
SVDF-A	110,595,715	1.66%	1,835,780	6.55%	2.69%	2,975,025	6.62%	3.94%	4,353,442	6.70%
SVDF-B	88,195,183	1.67%	1,472,078	5.22%	2.69%	2,372,450	5.28%	4.06%	3,580,592	5.35%
LVDF	157,887,745	0.10%	161,280	9.21%	0.10%	157,888	9.21%	0.00%	(2,454)	9.20%
Transport.	4,267,656	0.65%	27,720	0.25%	0.67%	28,593	0.25%	0.00%	0	0.25%
Weighted Average		2.44%			2.44%			2.44%		
Total	1,675,494,291		40,834,360	100.00%		40,895,297	100.00%		40,922,037	100.00%

Proposed increase ($) of $40.9 million reflects CenterPoint's rate case request excluding the cost of the Affordability Plan, discussed below.

In brief, if the Commission were to approve CenterPoint's proposed revenue requirement, CenterPoint would seek an increase of more than 3.3 percent from its General Service/Residential class and its smallest Commercial & Industrial class (C&I-A). CenterPoint would seek smaller increases from its other Commercial and Industrial customers (C&I-B and C&I-C) as well as from its Small Volume Dual Fuel customers (SVDF-A and SVDF-B). But for customers that have the best alternatives to taking CenterPoint's service (LVDF and Transportation), CenterPoint would propose allocating little of the increase.

CenterPoint defended its proposal to increase the revenue responsibility of the residential and small commercial classes more than the other classes. According to CenterPoint, the CCOSS shows that these classes fail to bear their fair share of CenterPoint's costs and are being subsidized by the other customers. CenterPoint argued that its allocation will help ensure that the residential and small commercial classes contribute revenues that cover more of their costs. But CenterPoint denied that its proposed allocation would eliminate the inter-class subsidy received by the residential class.

The Department concurred with CenterPoint in large part but proposed to implement changes more gradually. Similar to CenterPoint, the Department recommended limiting increases to the LVDF and Transportation customers because large increases might cause them simply to switch to another source of energy, thereby depriving CenterPoint of needed revenues and driving up rates for CenterPoint's remaining customers. Similar to CenterPoint, the Department proposed that the bulk of the revenue increase be borne by the classes of customers that lack the ready ability to switch to another source of energy. But unlike CenterPoint, the Department proposed that these classes bear the increase on an equal percentage basis.

This allocation would still increase the total percentage of CenterPoint's costs that are borne by the residential and small commercial classes, thereby moving them closer to bearing their proportionate share of CenterPoint's costs as calculated by the CCOSS. But unlike CenterPoint's proposal to effectively eliminate any subsidy to the residential class, the Department's proposal would shift a smaller share of the costs to the residential and small commercial class and leave some inter-class subsidy in place. The Department argued that CenterPoint's proposal would impose unnecessarily abrupt rate increases on residential and small commercial customers. The Department favored a more gradual approach.

RUD-OAG asked that the Commission allocate any new rate increase in the same manner that it allocated the last increase. RUD-OAG noted that only last year CenterPoint, the Department, the ALJ and the Commission all approved of CenterPoint's current revenue apportionment, and RUD-OAG can find no change of circumstances that would warrant revising it now. While CenterPoint argued that the CCOSS demonstrates a need to bring revenues from the residential and small commercial classes closer in line with their costs, RUD-OAG dismissed the CCOSS as being based on flawed premises, as discussed above.

Moreover, RUD-OAG argued that this is not an appropriate time to aggressively add costs to the class of customers that can bear them least. Gas prices remain high by historical standards. While corporate profits are up, real household income has not kept pace. And CenterPoint's plans to equalize its rates in its Northern and Viking service areas will require Viking customers to bear an extra increase in any event.

C. The ALJ's Recommendation

The ALJ reasoned that the Commission has sound policy grounds for not requiring the residential class to bear the full cost attributed to it by the CCOSS. After citing many of the concerns raised by the Department and RUD-OAG, the ALJ also noted that the cost of the Affordability Plan (discussed below) will add to the costs borne by the residential class; this fact provided further support for moderating allocations to the residential class. In the interest of rate continuity and gradualism in matching customer class revenues with costs, the ALJ recommended the Department's position.

D. Commission Analysis and Action

The Commission finds the ALJ's reasoning to be persuasive and her recommendation to be reasonable. The Commission will adopt both.

CenterPoint cites its CCOSS to dispute the assertion that its allocation would effectively eliminate the inter-class subsidy to the residential class. But given the Commission's decisions about CenterPoint's revenue requirement, rate of return, tax allocations and other matters, the Commission is not persuaded that the CCOSS provides a reliable guide for assessing each class' costs. Under these circumstances, the Commission finds that moderation is the best course of action.

The Commission finds much merit in the RUD-OAG's arguments about the benefits of conforming closely to the allocations adopted in CenterPoint's last rate case. But the Commission finds that the

Department's proposal – with its more uniform allocation across a broad range of customer classes – better achieves this objective than RUD-OAG's own proposal. Consequently the Department's proposal will be approved.

XXVI. Basic (or Customer) Charge – General Service/Residential

CenterPoint proposed to raise its basic charge for three customer classes: the General Service/Residential class, the Large General Service class and the Large Volume Dual Fuel class. The Commission will first address the General Service/Residential class, followed by the Large General Service and the Large Volume Dual Fuel classes .

A. Background

CenterPoint recovers its cost of serving General Service/Residential customers through a combination of the basic charge and delivery charges.

The basic charge, commonly called a customer charge, is a fixed monthly charge assessed without regard to usage levels. It is designed to recover fixed costs that do not vary with usage, such as constructing and maintaining infrastructure, reading meters, and conducting billing and collection services. The delivery charge, in contrast, is assessed in proportion to the amount of gas a customer uses.

The customer charge has two main functions, one practical and one grounded in ratemaking policy. Its practical function is to help stabilize utility revenues and reduce the risk that the utility will over- or under-recover its revenue requirement due to weather-related fluctuations in gas usage and sales. Its ratemaking function is to ensure that each customer bears responsibility for a certain level of the Company's fixed costs regardless of usage.

Theoretically, a utility recovers its revenue requirement whether customer charges are high or low; all the costs it is authorized to recover are built into either the customer charge or delivery charge, which are carefully calibrated, based on normalized weather data and forecasted sales volumes, to yield the authorized revenue requirement. As a practical matter, however, utilities usually prefer the certainty of fixed monthly charges to the fluctuation of usage charges.

CenterPoint previously sought to increase the residential customer charge from $5.00 to $16.00; the Commission ruled on that request last year, setting the charge at $6.50.[14] In this case CenterPoint has proposed to increase its customer charge to $8.00.

B. Positions of the Parties; Public Comment

CenterPoint and the Department advocated increasing the monthly residential customer charge from $6.50 to $8.00.

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[14] *In the Matter of an Application by CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G-008/GR-04-2005, ORDER ACCEPTING AND MODIFYING SETTLEMENT AND REQUIRING COMPLIANCE FILING (June 8, 2005).

First, they observed that CenterPoint's CCOSS indicates that CenterPoint spends an average of $20.47 monthly for each residential and commercial account. Costs that CenterPoint does not recover from ratepayers through the customer charge must be recovered from ratepayers through the delivery charge in proportion to the amount of gas consumed. According to CenterPoint, this rate design has certain harmful consequences.

- Setting the price of consuming gas above its costs can distort consumer behavior. People may tend to avoid using gas and switch to using other energy sources, even though gas may impose lower costs on society.

- Setting the price of gas above cost and using the difference to subsidize fixed costs will tend to benefit people who use little gas at the expense of people who use more gas.

While an $8.00 customer charge would not eliminate these consequences, CenterPoint and the Department argued that it would reduce them.

CenterPoint and the Department argued that permitting a utility to recover more of its costs through fixed charges and less through delivery charges would help to stabilize both customer bills and the utility's revenues throughout the year. This would simplify customer budgeting and might permit the utility to delay future rate cases.

CenterPoint and the Department noted that the Commission recently authorized an $8.00 customer charge for Northern States Power Company d/b/a Xcel Energy (Xcel).[15] Moreover, an $8.00 customer charge would permit CenterPoint to recover roughly 40 percent of the $20.47 residential costs indicated by the CCOSS, similar to the percentage of fixed costs Xcel recovers from its customers through its customer charge.

CenterPoint questioned the merits of promoting conservation by requiring a utility to recover fixed costs on the basis of varying sales. First, CenterPoint argued that 82 percent of a residential customer's gas bill reflects the cost of the gas itself; the added cost of delivering the gas is insignificant by comparison. Moreover, if allocating a utility's fixed costs to the incremental cost of buying gas succeeded in encouraging people to consume less gas, CenterPoint would lose the revenues designed to cover its fixed costs. This would result in CenterPoint filing for further rate increases.

Finally, CenterPoint disputed the suggestion that designing rates with a higher customer charge and lower distribution charge would harm low-income customers. CenterPoint cited a study showing that customers receiving assistance from the Low Income Home Energy Assistance Program (LIHEAP) consumed nearly the same amount of gas as CenterPoint's average customer. CenterPoint dismissed a contrary study from the U.S. Department of Energy as being too old and reflecting nation-wide rather than Minnesota-specific data. And CenterPoint noted that it merely seeks to increase its

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[15] *In the Matter of an Application by Northern States Power Company d/b/a Xcel Energy for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-002/GR-04-1511, ORDER ACCEPTING AND MODIFYING SETTLEMENT AND REQUIRING COMPLIANCE FILINGS (August 11, 2005) at 5-8.

monthly customer charge by $1.50 and as the Commission stated in CenterPoint's last rate case, "the amount of money at issue – $1.50 per month – is relatively small by almost any standard...."[16]

In contrast, ECC, RUD-OAG and SRA opposed increasing the customer charge above $6.50, largely for the reasons the Commission cited in rejecting the $8.00 customer charge during CenterPoint's last rate case.

First, ECC, RUD-OAG and SRA argued that a $6.50 customer charge is reasonable, falling in the middle of the range of customer charges authorized by the Commission.[17] While CenterPoint argued that it needs a larger customer charge to help offset the $20.47 it spends to serve each residential customer on average, ECC questioned the merits of the CCOSS that produced the $20.47 figure.

Second, ECC, RUD-OAG and SRA argued that customers would object to another increase in the customer charge coming so soon after the last increase. Such an abrupt increase would frustrate efforts to bring rates closer to cost gradually, and would undermine the public's confidence in the ratemaking process.

Third, ECC and RUD-OAG argued that higher customer charges would frustrate the Commission's statutory goal to promote conservation. Minn. Stat. § 216B.03. The Commission designs rates to permit a utility to recover its prudently incurred costs. Each dollar that a utility recovers through a fixed charge would be one less dollar that the utility would recover through a charge based on consumption. And when consumption becomes cheaper, customers have a reduced incentive to conserve.

Fourth, ECC and RUD-OAG argued that increases in the customer charge disproportionately harm low-income customers, frustrating the Commission's statutory duty to consider ability to pay when setting rates. Minn. Stat. § 216B.16, subp. 15. Customers that consume more gas benefit from having a lower usage-based cost, even if this means having a higher fixed charge; conversely, customers that consume relatively less gas benefit more from having a lower fixed charge, even if this means having higher charges on each unit of gas consumed. A U.S. Department of Energy study showed that low-income consumers tend to fall into the latter category of consumers. While CenterPoint cited a study suggesting that LIHEAP recipients had similar consumption patterns to other customers, the grants in question are targeted to low-income consumers with the highest energy bills, and therefore the results cannot be generalized to all low-income people.

Public comments echoed the view that a higher customer charge disadvantages low-income consumers and discourages conservation. Because a higher customer charge disfavors customers that consume less gas, arguably including a disproportionate share of low-income consumers, ECC and RUD-OAG argued that such policies are regressive.

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[16] *In the Matter of an Application by CenterPoint Energy Minnegasco, a Division of CenterPoint Energy Resources Corp., for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-04-901, ORDER ACCEPTING AND MODIFYING SETTLEMENT AND REQUIRING COMPLIANCE FILING (June 8, 2005).

[17] Currently, other natural gas utilities' monthly customer charges are as follows: GMG, $7.50; Great Plains Natural Gas Company, $6.50; Alliant Energy - Interstate Power, $5.00; MERC-NMU, $5.50; MERC-PNG, $6.50; Xcel Energy, $8.00.

Finally, while acknowledging that a higher customer charge and lower usage charges would tend to levelize customer bills throughout the year, ECC and RUD-OAG argued that customers could better achieve that end through the use of CenterPoint's Budget Plan or No Surprises Bill program. They saw no reason to increase customer charges to promote that purpose.

C. The ALJ's Recommendation

The ALJ concluded that CenterPoint's request is inconsistent with the rationale underlying the Commission's prior rate case decision. Only last year the Commission had the opportunity to authorize CenterPoint to increase its customer charge to $8.00 gradually, going from $5.00 to $6.50 for a year, and to $8.00 thereafter. The Commission did not do so. Adopting CenterPoint's proposed customer charge would, in effect, implement a policy that the Commission previously declined.

Instead, the Commission authorized an increase from $5.00 to $6.50, based in part on the increases in consumer prices in general as reflected in the federal Consumer Price Index (CPI). The ALJ noted that the CPI had increased by 4.3 percent since the time of that Order, which would theoretically support an increase of $0.28. Anticipating that the CPI will continue to rise before CenterPoint files another rate increase, the ALJ rounded this figure up to $0.50 to recommend setting the customer charge at $7.00.

D. Commission Analysis and Action

The Commission finds merit in much of the ALJ's analysis. The reasoning the Commission articulated in CenterPoint's last rate case, and rearticulated by the ALJ, still obtains today:

> In short, the Commission finds that any advantages the $8.00 customer charge might offer in terms of economic efficiency and revenue stability are more than offset by its adverse impact on low-income households, its tendency to neutralize conservation incentives in the minds of residential customers, and its potential to undermine customers' confidence in the reasonableness of the rate structure.[18]

While it is true that the Commission previously declared that "$1.50 per month ... is relatively small by almost any standard,"[19] the Commission made that observation in the context of the first increase to CenterPoint's customer charge in eleven years. Because eleven years have not lapsed since CenterPoint last increased its customer charge, this citation to CenterPoint's last rate case Order is inapplicable to the current situation.

To the contrary, CenterPoint's proposed increase is largely the same increase the Commission declined to adopt during its previous rate case. Granting CenterPoint's request would result in the residential charge increasing by 60 percent within the span of two years. This increase is far out of proportion to the increases CenterPoint has requested for the other components of its rates.

CenterPoint argues that circumstances have changed since its last case because CenterPoint's new CCOSS indicates that CenterPoint now spends an average of $20.47 to serve each residential customer. Given this change, CenterPoint argues that it needs around an $8.00 customer charge to

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[18] *Id.*

[19] *Id.*

recover 40 percent of this cost, comparable to the percentage that Xcel recovers through its customer charge. But the $20.47 figure reflects CenterPoint's assumptions about how its income tax liability should be allocated among customer classes. Because the Commission declines to adopt CenterPoint's allocation method, a revised CCOSS would no longer support the $20.47 figure upon which CenterPoint's argument is based.

For the foregoing reasons, the Commission will decline to approve such a large increase to the customer charge at this time.

The ALJ favors a smaller increase, noting that the CPI has increased roughly 4.3 percent since the Commission authorized CenterPoint's last increase. But the ALJ overlooks the fact that in its last rate case the Commission authorized CenterPoint to increase its customer charge by 30 percent, even though the CPI had increased only around 25 percent since the prior charge was adopted. In other words, the Commission has already authorized increasing the customer charge consistent with the CPI even after the additional 4.3 percent growth is taken into account. The Commission is not persuaded that additional growth is warranted at this time. Consequently the Commission will decline to adopt the ALJ's recommendation.

Because the Commission finds insufficient reason to change the customer charge, the previously authorized charge of $6.50 will be reaffirmed.

XXVII. Basic (or Customer) Charge – Large General Service and Large Volume Dual Fuel

CenterPoint also proposed to increase its monthly customer charge for its Large General Service (LGS) and Large Volume Dual Fuel (LVDF) customers by $70. That is, CenterPoint recommended increasing the customer charge for LGS and LVDF sales customers from $330 to $400, and the LGS and LVDF transportation customers (that is, customers that purchase their own supply of gas and pay CenterPoint merely to deliver it to their premises) from $430 to $500. According to CenterPoint, the CCOSS supports increasing the charge for LVDF customers. But the CCOSS did not address the cost of serving LGS customers because CenterPoint does not currently serve any.

The Department found CenterPoint's proposed rate increases reasonable, and no party opposed it. The ALJ explicitly recommended approving CenterPoint's proposed increase for its LVDF sales customers, but did not address increases for customer classes that currently lack customers.

CenterPoint's proposed increases to the LGS and LVDF customer charges reflect the best information available in the record. Finding them reasonable, the Commission will approve these increases.

XXVIII. Northern/Viking Rate Area Consolidation

A. Background

CenterPoint distributes natural gas within two distinct areas.

- The Northern rate area (where gas is delivered via the Northern Natural Gas pipeline) includes all of CenterPoint's Minnesota service area of over 250 communities, in 39 counties, except for the communities of Dalbo Township, Foreston, Milaca, and Pease. CenterPoint estimates it serves 784,095 customers in its Northern rate area, consuming approximately 99.86 percent of CenterPoint's annual throughput.

- The Viking rate area (where gas is delivered via the Viking Gas Transmission Line) consists of Dalbo Township, Foreston, Milaca, and Pease. CenterPoint has approximately 1,426 customers in its Viking rate area, consuming approximately 0.14 percent of CenterPoint's annual throughput.

As a legacy of the time when these areas were managed by different companies, the rates charged in the Northern rate area have tended to be higher than the rates charged in the Viking rate area. Consistent with the decision in CenterPoint’s last rate case, CenterPoint has been adjusting its rates in these two areas to bring greater uniformity between them.

B. Positions of the Parties

CenterPoint proposed in the current rate case to complete the process of consolidating these rate areas by adopting uniform rates for service offered throughout its Minnesota service areas.

The Department noted that CenterPoint’s proposal would require ratepayers in the Viking rate area to bear a price increase related to conforming their rates to the rates in the Northern rate area, in addition to the burden of the general rate increase proposed in this rate case. All of these increases would be in addition to the rate increase the Commission approved slightly over one year ago. The Department expressed concern that the combined effect of these increases would provoke consumer resistance and undermine faith in the ratemaking process.

Ultimately CenterPoint and the Department recommended delaying the final consolidation of the Northern and Viking rate areas until eighteen months after the final order in this proceeding. No party opposed this proposal.

C. The ALJ’s Recommendation

The ALJ recommended approval of the party’s proposal.

D. Commission Analysis and Action

The Commission finds the unanimous recommendation of the parties and the ALJ to be reasonable. Consequently, the Commission will adopt the ALJ’s recommendation and direct CenterPoint to complete the consolidation of the Northern and Viking rate areas eighteen months after the final order in this proceeding. If CenterPoint were to file a rate case within eighteen months of the final Order in this proceeding, however, CenterPoint should plan to consolidate its rate areas at the end of that case to minimize customer confusion.

XXIX. Affordability Plan and Tariff

A. Background

The Commission may establish programs designed to lower the percentage of income that low-income households devote to energy bills, to increase customer payments, and to reduce a utility’s cost associated with unpaid bills such as “service disconnections; ... utility collection costs, arrearages and bad debt.” Minn. Stat. § 216B.16, subd. 15. That statute also contemplates that the program may involve “the coordination of other available low-income bill payment and conservation resources....”

CenterPoint and ECC proposed an "Affordability Plan" that they say conforms to the statutory standards, designed to assist low income customers in meeting the increasingly high cost of natural gas. The plan has been revised throughout these proceedings in response to party concerns and suggestions. The most recent restatement of the proposal appears in CenterPoint's comments of June 6, 2006, although CenterPoint subsequently agreed to additional changes during a hearing on June 28, 2006.

Under the plan, CenterPoint would credit the account of each participant one-twelfth the difference between the participant's estimated annual gas bill and 6 percent of the participant's household income. In addition, each month that CenterPoint received a timely payment from a participant, CenterPoint would forgive a portion of the participant's past-due bill. The amount of the forgiveness would be calculated to pay off the past-due balance in no more than 24 months.

CenterPoint would continue providing service to participants who maintain their payments, no matter how large their arrearages. But if a participant missed two consecutive payments, CenterPoint could remove the participant from the plan.

Only customers receiving benefits from the federal Low Income Home Energy Assistance Program (LIHEAP) would be eligible to participate. The plan would also be limited by the size of its budget. Information concerning participation in the program will be mailed to the roughly 12,000 customers who are 90 days or more in arrears.

CenterPoint pledged to use its best efforts to spend no more than 5 percent of the plan's budget on administrative costs. CenterPoint proposed to recover the program's start-up costs and up to $5 million annually for the cost of the credits, arrearage forgiveness and administration, from residential ratepayers.

CenterPoint and ECC proposed using a tracking mechanism to ensure that CenterPoint would recover no more than the actual cost of the program. CenterPoint agreed to add tariff language to state that the Commission could disallow CenterPoint's recovery of imprudently incurred costs. CenterPoint would add language to Section 4.3 of its proposed tariff to state that CenterPoint would not seek to recover the difference between the program's costs and revenues before CenterPoint's next rate case.

In addition, CenterPoint would move tariff Section 5.1a to new Section 6 "Program Revocation." The existing Sections 6 and 7 would be renumbered Sections 7 and 8, respectively.

Finally, CenterPoint and ECC proposed that CenterPoint would report annually to the Commission on the plan's status.

B. Positions of the Parties

In the interest of helping low-income consumers cope with rapidly rising energy costs and helping CenterPoint (and its ratepayers) manage the corresponding rise in bad debt and arrearages, CenterPoint, the Department and ECC asked the Commission to approve the Affordability Plan. RUD-OAG did not.

RUD-OAG argued that the plan would promote undue discrimination because it would afford disparate treatment to similarly situated consumers. This would arise in two ways.

First, the general practice of establishing low-income assistance programs on a utility-by-utility basis ensures that similarly situated consumers will receive disparate treatment based only on the identity of the consumer's utility. RUD-OAG favored addressing these issues uniformly on a statewide basis. In response, ECC argued that RUD-OAG's proposal is too vague to substitute for the Affordability Plan presented by the parties.

Second, RUD-OAG argued that it would be arbitrary to withhold eligibility from customers that qualify for LIHEAP but have not yet received assistance due to that program's limited budget. In response, ECC noted that the Legislature approves of targeting low-income assistance to "customer[s who are] receiving assistance from the federal low-income home energy assistance program." Minn. Stat. § 216B.16, subd. 14. Moreover, ECC argued, targeting Affordability Plan assistance to LIHEAP recipients would be administratively efficient because LIHEAP already incurs the cost of identifying and verifying the qualifications of customers that have the lowest income and greatest need.

RUD-OAG noted that LIHEAP participants represent a small portion of CenterPoint's bad debts; even if the program succeeded in ensuring that all LIHEAP participants paid their CenterPoint bills, this would have a small effect on CenterPoint's bad debt balance. ECC explained that LIHEAP participants represent a small portion of CenterPoint's bad debt account because there are so few LIHEAP participants. But ECC argued that this analysis misses the point. LIHEAP participants represent a disproportionate share of bad debt accounts, so it would be efficient to target Affordability Plan funds to these customers. Finally, because the Affordability Plan would entail mailing notice to approximately 12,000 customers that are behind on paying their bills, ECC predicted that program would have the added benefit of encouraging additional qualified households to sign up for LIHEAP.

RUD-OAG expressed concern that the program's development and administrative costs would consume an excessive portion of the program's budget. ECC argued that the target administrative cost of 5 percent would be quite reasonable given that 12-16 percent of LIHEAP funds are spent on administration.

RUD-OAG argued that the Commission lacked specific statutory authority to use a tracking mechanism to permit CenterPoint to recover the costs of the program outside of a rate case. RUD-OAG favored using deferred accounting wherein CenterPoint would wait until a future rate case before seeking recovery of costs associated with the Affordability Plan. CenterPoint and ECC argued that the Commission's general ratemaking authority is sufficient to authorize the use of tracker accounts. CenterPoint noted that the Commission has authorized the use of trackers in many similar circumstances, including to recover the cost of the low-income assistance program operated by Northern States Power Company d/b/a Xcel Energy.

Finally, RUD-OAG objected to making residential customers bear the full cost of this program. In response, CenterPoint justified this policy by arguing that bad debt cost tends to be a cost of serving the residential class. According to CenterPoint, more than 90 percent of its bad debt arises from residential customers. In the interest of assigning costs to the classes that cause them, CenterPoint supported recovering the cost of the Affordability Plan from the residential class.

C. The ALJ's Recommendation

The ALJ recommended approval of the Affordability Plan. Given that the Legislature has authorized utility-specific affordability plans, ALJ found no legal reason the Commission could not approve the plan proposed by CenterPoint and ECC.

D. Commission Analysis and Action

While RUD-OAG raises a number of thoughtful points, the Commission is not persuaded that any of them warrant rejecting the Affordability Plan outright.

RUD-OAG correctly observes that different customers have different opportunities based on the utility from which the customer receives service. This dynamic is not unique to low-income assistance plans, and does not constitute undue discrimination. Whatever the merits of establishing a state-wide policy to address the needs of low-income consumers, that matter is beyond the scope of the present docket and, in any event, does not preclude implementation of the proposed Affordability Plan in the meantime.

The Commission finds merit in the choice to rely on the LIHEAP program to identify people who can best benefit from the plan's limited resources. The fact that the Legislature has authorized this practice for delivering low-income energy assistance bolsters the Commission's confidence in the wisdom of this practice. RUD-OAG does not allege that LIHEAP recipients are not appropriate targets for Affordability Plan assistance, but rather that people outside of LIHEAP could benefit as well. This is no doubt true, but it illustrates the problem of insufficient resources, not inappropriate targeting of existing resources.

For the reasons articulated by CenterPoint, ECC and the ALJ, the Commission finds the Affordability Plan a reasonable proposal for assisting low-income consumers and managing CenterPoint's bad debts. Nevertheless, the record of this case persuades the Commission that the plan could be refined further. The Commission will therefore approve the Affordability Plan as set forth in Center Point's reply comments of June 6, 2006, and modified by its commitments of June 28, 2006, but with the following additional modifications.

First, the Commission will authorize the Affordability Plan as a pilot program. The plan will terminate after four years unless the Commission, after evaluation, notice and hearing, extends the plan for another term or indefinitely. This modification will ensure that the Commission provides a measure of oversight and provides a forum for problems to be identified and remedied after all parties have gained more experience.

Second, the Commission appreciates the RUD-OAG's concern that the plan be administered efficiently and not consume inordinate funds in program administration. To this end, the Commission will cap the amount of the plan's budget that CenterPoint may recover from ratepayers for administration expenses at 5 percent. This limit will ensure that ratepayer dollars achieve the benefits for which they are authorized.

Third, the Commission finds merit in RUD-OAG's argument that the cost of the plan should be spread more broadly. The Commission will therefore direct CenterPoint to recover the cost of this program not merely from residential customers, but from all its firm customers. Because the plan is designed to reduce CenterPoint's administrative costs and to benefit society at large, it is appropriate that the costs be borne by a broader section of CenterPoint's ratepayers, and of society at large.
Finally, in the interest of outreach – and of informing ratepayers where their dollars are going – the Commission will direct CenterPoint to develop a plan for providing notice. CenterPoint shall consult with interested parties to develop a plan for notifying each of CenterPoint's firm customers about the plan and its cost to the customer. CenterPoint shall report on its proposed notice plan in its filing demonstrating compliance with this Order.

XXX. Implementation of New Billing System and Related Call Center Issues

A. Background

CenterPoint's 23-year-old customer billing system had been developed using a now-obsolete computer language and file structure, making maintenance and modifications difficult and depriving CenterPoint of some analyses that newer systems could perform. In 2006 CenterPoint replaced its old customer billing system with a new system that was integrated into all aspects of customer service, including call center operations.

A number of other things were occurring around the same time. For example, CenterPoint had implemented higher interim rates as part of this rate case. Gas prices were relatively high, resulting in unusually high bills and concomitant concerns about the ability to pay bills and about protections under the Commission's Cold Weather rule. And CenterPoint began producing bills in a new format, mailed in an unfamiliar envelope, and displaying new account numbers for each customer.

Also at this time CenterPoint began directing customers to stop mailing payments to Minneapolis, Minnesota, and instead to mail them to Houston, Texas. Although CenterPoint was aware that the U.S. Postal Service predicts that mail would take an additional two days to reach this new destination, CenterPoint did not emphasize this fact to its customers.

When the new system became operational, the average wait time for a caller to reach a CenterPoint representative grew from 23 seconds to nearly four minutes, the percent of calls answered within 30 seconds fell from 78 percent to 17 percent, and the share of abandoned calls grew from less than 8 percent to more than 20 percent. After implementing remedial measures and gaining more experience with the new system, CenterPoint has improved its service quality, but the quality has not yet returned to 2005 levels.

In the meantime, many CenterPoint customers did not manage to get their bills paid on time. According to the Department, CenterPoint billed for millions of dollars in additional late payment fees during this period.

No party disputed the prudence of replacing CenterPoint's old customer billing system. But the parties disagree about the prudence of the manner in which CenterPoint launched the new system and managed its call centers, and about what remedies should be implemented, if any.

B. Positions of the Parties

CenterPoint acknowledged that it failed to maintain expected levels of service quality while the new customer billing system was being implemented. Consequently, CenterPoint said, it has reversed or refunded the late payment fees for any customer who contacted the Company, as well as for any customer whose payments from February through June was no more than five days late. This remedy has cost the Company roughly $300,000.

The Department argued that CenterPoint failed to conduct its operations in a prudent fashion. In particular, the Department complained that 1) CenterPoint failed to have enough customer service representatives hired and trained during a time when it was foreseeable that more customers would be seeking assistance, 2) CenterPoint failed to manage the number of telephone trunk lines available to handle the calls, and 3) CenterPoint failed to give customers adequate notice of the extra time needed to pay their utility bill on time. CenterPoint disputed these allegations.

As a remedy, the Department initially proposed waiving all late payment fees arising from bills for February through June, 2006. But at hearing, the Department modified its position and recommended waiving the late-payment fees for payments no more than 30 days late. CenterPoint opposed this remedy, arguing that such a waiver would impose a financial burden on the Company without any demonstrated relationship to the problems discussed above.

C. The ALJ's Recommendation

The ALJ recommended finding that CenterPoint acted prudently in deciding to replace its old customer billing system, and recommended authorizing cost recovery in accordance with rate case conventions.

Citing the Department's arguments, however, the ALJ could not recommend finding that CenterPoint acted prudently in the manner in which it implemented its new billing system and managing its call centers. The ALJ reasoned that callers have a reasonable expectation of being able to contact their utility in a timely fashion regarding bills they do not understand. While it may make sense to focus remedies on those customers that experienced problems with the call center, the ALJ observed that CenterPoint has no method to identify the callers who had abandoned their calls to the call centers.

Absent a means to target remedies to these callers, the ALJ recommended reversing and refunding the late payment fees generally. But rather than adopt the Department's initial proposal to waive all late fees arising from bills in February through June, 2006, the ALJ reasoned that a 30-day grace period should suffice.

D. Commission Analysis and Action

The Commission finds the ALJ's analysis persuasive and her recommendations reasonable. The Commission will authorize CenterPoint to recover the cost of its new billing system as set forth by the ALJ. But to the extent that CenterPoint's own conduct contributed to the growth in its revenues for late payment fees, the Commission finds it reasonable to provide for refunding those fees. The only unresolved issue is to identify the appropriate refund period.

Because CenterPoint's mismanagement has resulted in CenterPoint billing for several million dollars in additional revenues and the Company has provided only $300,000 in remedies, the Department is justified in concluding that CenterPoint has profited from its mismanagement and that additional remedies are warranted. But CenterPoint is also justified in arguing that not every instance of a late payment will have arisen as a consequence of problems at its call centers.

The Commission finds the ALJ's recommendation of a 30-day grace period to be reasonable. It recognizes that a five-day grace period may have proved inadequate to permit customers to call, fail to get through to a call center, and then mail a payment in time to reach Houston before the due date. But it also recognizes that customers that fail to make timely payments for reasons unrelated to the problems at CenterPoint's call centers should not be relieved of paying late payment fees.

Consequently the Commission will direct CenterPoint to reverse or refund late payment charges imposed as a result of payments that were due between February 1 and June 30, 2006, inclusive, and that were received within 30 days of their due dates.

XXXI. Compliance Filings and Comment Period

The Commission will require CenterPoint to make a compliance filing within 30 days of the date of this Order, revising schedules of rates and charges to reflect the revenue requirement and the rate design decisions herein. The compliance filing will also contain a proposed effective date for the revised rates and charges and a plan for refunding the difference between the amounts it collected in interim rates and the amounts it is authorized to collect in final rates. The Compliance filing will also include such additional information as is detailed in Order Paragraph 3, below.

The Commission will establish a brief comment period to give interested persons a chance to review and comment on the Company's filing. See Order Paragraph 4.

ORDER

1. The Commission accepts and adopts the findings, conclusions, and recommendations of the Administrative Law Judge, except as set forth herein.

2 Center Point is entitled to increase gross Minnesota jurisdictional revenues by $25,960,00 to produce gross jurisdictional total retail related revenue of $1,639,954,000 for the test year ending December 31, 2006.

3. Within 30 days of the date of this Order, CenterPoint shall make a compliance filing implementing the decisions made herein and containing at least the following items:

    A. revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions herein, along with the proposed effective date, and including the following information:

        1. a breakdown of Total Operating Revenues by type;

        2. schedules showing all billing determinants for the retail sales (and sale for resale) of gas; these schedules shall include but not be limited to:

            a. total revenue by customer class;

            b. total number of customers, the customer charge and total customer charge revenue by customer class; and

            c. for each customer class, the total number of commodity and demand related billing units, the per unit commodity and demand cost of gas, the non-gas unit margin, and the total commodity and demand related sales revenues;

        3. revised tariff sheets incorporating authorized rate design decisions;

        4. proposed customer notices explaining the final rates;

B. a revised base cost of gas and supporting schedules incorporating any changes made as a result of this rate case, and automatic adjustments establishing the proper adjustments to be in effect at the time final rates become effective;

C. a calculation of the CIP cost recovery charge (CCRC) based on the decisions made herein and schedules detailing the CIP tracker balance at the beginning of interim rates, the revenues (CCRC and CIP Adjustment Factor) and costs recorded during the period of interim rates, and the CIP tracker balance at the time final rates become effective;

D. a proposal to make refunds of interim rates, including interest calculated at the average prime rate, to affected customers; and

E. a report on its proposal for giving notice to each customer in the classes of firm customers regarding the nature of the Affordability Plan and its costs to the customer.

4. Parties are authorized to comment on the compliance filing required under paragraph 3 within 15 days of the date of the filing.

5. CenterPoint shall comply with the requirements that the Commission imposed as conditions for its approval of the GTI - Research and Development Expenses, as follows:

A. CenterPoint shall make available for public inspection the status, results, and research and development implications of each GTI project funded under CenterPoint's proposal.

B. In its next general rate case filing, CenterPoint shall provide, a report detailing the precise GTI projects funded under CenterPoint's proposal and the results potential applications of each project studied.

C. CenterPoint shall establish a liability account that reflects a beginning balance equal to the total revenues collected from ratepayers to fund GTI projects since the implementation of interim rates in this case as proposed by CenterPoint, and each month apply expense dollars at the level approved by the Commission.

D. The true up of the liability account to be done with respect to GTI expenses will not allow CenterPoint to collect additional dollars from customers in the event CenterPoint expends more than the $250,000 yearly amount collected from them, That the cap of $250,000 applies individually to each year, such that expenditures of more than $250,000 in one year will not be netted with expenditures of less than $250,000 in another year included in the true-up.

E. On or before May 1 annually, CenterPoint shall make compliance filings, with a detailed listing in the liability account of GTI expenses and revenues for the previous reporting period.

6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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