BEFORE THE MINNESOTA OFFICE OF THE ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, Minnesota 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East
Suite 350
St. Paul, Minnesota 55101-2147

MPUC Docket No. G008/GR-13-316
OAH Docket No. 80-2500-30979

In the Matter of the Application of CenterPoint Energy Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota

DIRECT TESTIMONY AND EXHIBITS OF ATTORNEY GENERAL - ANTITRUST AND UTILITIES DIVISION WITNESS

VINCENT C. CHAVEZ

November 26, 2013

PUBLIC VERSION
TRADE SECRET DATA EXCISED

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Vincent C. Chavez. I am employed by the Office of Minnesota Attorney General Lori Swanson as a Utilities Economist in the Antitrust and Utilities Division ("OAG"). My business address is Bremer Tower, Suite 1400, 445 Minnesota Street, St. Paul, Minnesota, 55101-2127.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. My education and professional background is summarized in Schedule VCC-1.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of CenterPoint Energy's ("CenterPoint" or "Company") 800,000 Residential and Small Commercial and Industrial (C&I-A and B) customers.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN ANY REGULATORY PROCEEDING BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION (COMMISSION)?

A. Yes. As shown in Schedule VCC-1, I have been involved and/or testified in approximately thirty (30) proceedings before the Commission since 1986. I have provided direct testimony on behalf of the Minnesota Department of Commerce ("DOC") regarding revenue decoupling in Xcel Energy's two most recent natural gas rate cases in Docket Nos. G002/GR-04-1151 and G002/GR-06-1429 as well as in CenterPoint's last rate case in Docket No. G008/GR-08-1075. Additionally, I have provided testimony on behalf of the Office of the Attorney General ("OAG") in Minnesota Energy Resources Corporation's ("MERC") most recent rate case in Docket No. G007,011/GR-10-977 and Xcel Energy's most recent electric rate case in Docket No. E002/GR-13-961. Copies of my testimony are included in the Commission's records in those rate cases. Testimony filed since 1996 is electronically available on the Department of Commerce's ("DOC") e-docket system (http://www.puc.state.mn.us/PUC/index.html).

II. PURPOSE OF TESTIMONY

Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.

A. The purpose of my testimony is to provide the OAG's analysis of CenterPoint's proposed rate design, including revenue apportionment, customer charges, the proposed Straight-Fixed Variable ("SFV") rate design, the proposed Revenue Decoupling Mechanism ("RDM") and the methodology (e.g., the proposed time basis) upon which to establish the proposed Weather Normalization Adjustment ("WNA").

Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY.

A. My testimony addresses how to apportion rates to fairly balance both cost and non-cost factors to ensure fair, reasonable and understandable rates. Based solely on the results from its Class Cost of Service Study ("CCOSS"), CenterPoint proposes to increase rates to only the small firm customers, while proposing no increase in non-gas revenue recovery to Large C&I-C and interruptible customers, other than the increase related to the Conservation Improvement Program ("CIP") costs.[1] This is neither fair nor reasonable. I present the foundation for my recommendation to apply any Commission-approved rate increase equally, "across-the-board" to all customer classes. I demonstrate that such an adjustment is both fair and reasonable. My testimony addresses the following:

1. Residential and Small C&I customers are paying their fair share. The OAG's CCOSS analysis[2] demonstrates that, after correcting a single assumption in the company's model (i.e., the allocation of distribution system costs), the Residential class is essentially paying its full allocated costs.
2. Residential and Small C&I customers are availing low-cost, convenient natural gas to C&I-C and interruptible customers, who otherwise would need to purchase more expensive alternative fuels.
3. CenterPoint proposes to increase the monthly customer charge for Residential and Small C&I customers while it does not propose any increase in customer charges to the Large C&I-C and interruptible customer classes. CenterPoint also proposes to collect most, if not all, of its fixed costs from Residential and Small C&I customers through the monthly customer charge. The unprecedented increase in customer charges proposed for the Residential and Small C&I customers constitutes "rate shock".
4. CenterPoint proposes a new, permanent full revenue decoupling mechanism to be imposed on small firm customers, which guarantees full recovery of Commission-approved revenues from these classes, regardless of weather. If approved, this mechanism would both reduce the Company's financial risk

[1] Drews at 4, lines .

and provide financial stability. Therefore, this mechanism benefits shareholders as well as other customer classes not subjected to decoupling. However, firm customers are not compensated in rates for reducing the financial risk for the shareholders or other rate classes.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is presented in two sections. The first section focuses on rate design, including rate design consideration, apportionment of revenue responsibility, and the Company's proposed straight-fixed variable ("SFV") monthly customer charges for Residential and Small C&I customer classes. The second section addresses non-traditional rate mechanisms, specifically the full revenue decoupling and weather normalization, which CenterPoint proposes to subject Residential, Small C&I-A, B, C and Firm Transportation customer classes.

III. RATE DESIGN

A. RATE DESIGN CONSIDERATIONS

Q. HAS THE COMMISSION DEFINED THE FACTORS IT CONSIDERS IN SETTING RATES?

A. Yes. In its Order in Docket No. E-002/GR-10-971 ("10-971"), dated May 14, 2012, the Commission stated:

(Footnote Continued From Previous Page)
[2] OAG Witness Nelson, Direct.

> The Commission considers many factors in setting rates, including economic efficiency; continuity with prior rates; ease of understanding; ease of administration; promotion of conservation; ability to pay; ability to bear, deflect, or otherwise compensate for additional costs; and in particular, the cost of service. (Order at page 14.)

Q. WHAT ARE THE STATUTORY AND OTHER GUIDELINES THAT ARE RELEVANT FOR ESTABLISHING UTILITY CUSTOMER RATES BY THE MINNESOTA COMMISSION?

A. On advice of counsel, I understand that the statutory guidance for setting utility rates are:

216B.03 REASONABLE RATE.

Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial, or discriminatory, but shall be sufficient, equitable, and consistent in application to a class of consumers. To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164 (Cogeneration and small power production), 216B.241 (Energy conservation improvement), and 216C.05 (Findings and purpose). Any doubt as to reasonableness should be resolved in favor of the consumer.

216B.07 RATE PREFERENCE PROHIBITED.

No public utility shall, as to rates or service, make or grant any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage.

On advice of counsel, I also understand that, in addition to these statutory guidelines for setting rates, the Commission, through its quasi-legislative authority, establishes rates for different customer classes. The Commission has addressed rate setting and its concerns in previous cases which are also relevant to this case. The Commission's concerns about fully allocated costing methods and rate setting were explained in a Minnegasco (now CenterPoint Energy) natural gas rate case. In Docket No. G-008/GR-95-700, the Commission provided the following analysis:[3]

> The Commission agrees with the RUD-OAG that the Company has not demonstrated that aligning rates with fully distributed embedded cost and shifting revenue responsibility from large commercial/industrial customers to residential/small business customers will achieve its stated goals of sending proper price signals, removing subsidies, and preparing the Company for competition. In fact, the weight of the evidence points to these measures having the opposite effect.

Q. IN ADDITION TO SENDING PROPER PRICE SIGNALS, WHAT OTHER GUIDANCE SHOULD THE COMMISSION CONSIDER WHEN ESTABLISHING RATES?

A. The Commission, in consideration of state and federal public policy, can also promote energy conservation and economic efficiency when determining the proper rate structure within and amongst customer rate classes.

Q. HOW CAN THE COMMISSION PROMOTE ENERGY CONSERVATION AND ECONOMIC EFFICIENCY IN SETTING RATES?

A. The Commission can design rates that encourage conservation and use of renewable fuels to produce energy as mandated in Minn. Stat. § 216B.03 cited above. The Commission has also articulated its reservations over the use of fully embedded CCOSS[4] for purposes of setting economically efficient rates, as explained above. CenterPoint's CCOSS does not provide the proper considerations of economic efficiency and environmental protection in setting rates. Environmental protection through energy conservation has become a high priority as a public policy objective. A rate design, utilizing a high customer

[3] *In the Matter of the Application of Minnegasco, a Division of NorAm Energy Corp. for Authority to Increase its Rates for Natural Gas in the State of Minnesota*, Docket No. G008/GR-95-700, (June 10, 1996), pages 50-51.

charge, for example, will not promote the public policy of encouraging energy conservation.

Q. ARE THERE OTHER NON-COST FACTORS THAT SHOULD BE CONSIDERED IN SETTING RATES?

A. Yes. The Minnesota Supreme Court enumerated the non-cost factors that should be considered in setting rates:

> Once revenue requirements have been determined it remains to decide how, and from whom, the additional revenue is to be obtained. It is at this point that many countervailing considerations come into play. The commission may then balance factors such as cost of service, ability to pay, tax consequences, and ability to pass on increases in order to achieve a fair and reasonable allocation of the increase among consumer classes. This determination must result in rates which are "just and reasonable" and rates "shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers." Minn. St. 216B.03.

St. Paul Area Chamber of Commerce v. Minnesota Public Service Commission, 251 N.W. 2d 350 (1977) at 357. Further, on advice of counsel, I understand that Minn. Stat. § 216B.16, subd. 15(a) encourages the Commission to consider low income needs: "The commission may consider ability to pay as a factor in setting utility rates . . . ."

Q. IS THERE ANY OTHER CRITICAL NON-COST FACTOR THAT SHOULD BE CONSIDERED IN SETTING RATES FOR REGULATED NATURAL GAS COMPANY?

A. Yes. The "value-of-service" is a significant non-cost factor that must be considered. There is real and active competition between natural gas service and other forms of energy, specifically alternative fuels. Natural gas has many

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(Footnote Continued From Previous Page)
[4] Class Cost of Service Studies are tools of ratemaking that measure and assign costs to customer classes and
(Footnote Continued on Next Page)

advantages over other fuels because of its convenience, efficiency, price and clean-burning characteristics. According to the American Gas Association's ("AGA") Gas Rate Fundamentals book,

> The cost of service is one element in fixing rates, in conjunction with the value of the service to the customer, the competitive cost of other forms of energy, the previous level of rates, and the provisions of state and federal regulatory requirements.[5]

Utility rates that reflect competitive factors are considered value-of-service rates. Value-of-service is shorthand for the highest price that a single customer is willing or able to pay. That price depends, in large part, on the price and availability of alternative service (e.g., fuel oil, residual oil, coal, propane, etc.).

Q. DOES CENTERPOINT CONSIDER THE VALUE-OF-SERVICE FACTOR IN DESIGNING RATES?

A. No. CenterPoint does not address the value of service as a consideration in its proposed rate design. In fact, there is no reference to value-of-service considerations in the Company's testimony.

B. APPORTIONMENT OF REVENUE RESPONSIBILITY

1. Background

Q. PLEASE IDENTIFY THE GENERAL KINDS OF SERVICE THAT CENTERPOINT ENERGY PROVIDES TO ITS CUSTOMERS?

A. There are several types of service provided by CenterPoint. First, the two overall types of service for customers are sales service and transportation service. Under sales service, customers rely on CenterPoint Energy to provide them gas service,

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(Footnote Continued From Previous Page)
provide a cost basis for establishing rates for different classes and services.

including the gas commodity. CenterPoint Energy does this by arranging for natural gas to be delivered to a Town Border Station (TBS), and then delivers that gas through its distribution system to the individual customer. Under transportation service, customers acquire their own natural gas supplies through an unregulated gas supplier to be delivered to a TBS, and then transport this gas through CenterPoint Energy's distribution system. As indicated in the Company's tariffs, more responsibility for balancing and nominating is typically placed on transportation customers.

Second, customers on sales and transportation services take either firm or interruptible service. Firm service is typically not subject to curtailment, and is priced to include the costs of providing this reliability. Service to customers pursuant to interruptible tariffs can be curtailed by CenterPoint as needed to maintain system reliability.

Third, some customers may take service under a flexible tariff ("market rate") or a standard tariff. Customers must take service under standard rates unless they have a viable alternative to transporting natural gas on CenterPoint Energy's system. If a customer uses an alternative to gas (such as propane, coal, fuel oil, etc.) for price reasons, then that customer is automatically placed on a flexible rate and must remain on the rate for at least one year.

Q. WHAT ARE CENTERPOINT ENERGY'S BASIC SERVICE CLASSES?

A. Currently, CenterPoint Energy's basic service classes include the following:

- Four firm sales classes:

(Footnote Continued From Previous Page)
[5] See page xxi under subtitle entitled "Ratemaking Elements."

    - Residential Sales Service;
    - Commercial A (C&I-A) available to customers whose annual use is less than 1500 therms;
    - Commercial and Industrial B (C&I-B) available to customers whose annual use is greater than 1500 therms but less than 5000 therms;
    - Commercial and Industrial C (C&I-C) available to customers whose annual use is greater than 5000 therms;
- Three interruptible (non-firm) sales classes:
    - Small Volume Dual Fuel A (SVDF-A) available to commercial and industrial customers whose annual use is less than 120,000 therms;
    - Small Volume Dual Fuel B (SVDF-B), available to commercial and industrial customers whose annual use is more than 120,000 therms;
    - Large Volume Dual Fuel (LVDF).

CenterPoint Energy also provides transportation-only service (i.e., without the sale of natural gas) and has separate rates for small and large volume customers.

Q. HOW MANY CUSTOMERS TAKE THESE VARIOUS SERVICES?

A. According to its overall CCOSS, CenterPoint Energy has approximately 822,713 customers. Approximately 99.66 percent (819,933 customers) are "traditional" firm sales customers taking service under a standard, non-flexible tariff. The remainder, approximately 0.34 percent (2,780 customers) are interruptible (non-firm) customers.

2. CenterPoint's Approach to Revenue Apportionment

Q. PLEASE DISCUSS CENTERPOINT ENERGY'S APPROACH TO THE APPORTIONMENT OF REVENUE RESPONSIBILITY.

A. Using its CCOSS, CenterPoint identifies "the difference between the non-gas revenues generated under present rates and the Company's costs of providing sales, transportation and other services to its natural gas service customer for the forecasted test-year…"[6] The customer classes that have a deficiency between the present rates and the costs from the CCOSS are assigned a rate increase. In Direct Testimony, CenterPoint does not address any non-cost factor in developing its rate design.

Q. PLEASE IDENTIFY CENTERPOINT'S REVENUE RESPONSIBILITY APPORTIONMENT.

A. Table 1 below reveals the rate impact of CenterPoint's proposed rates based solely on its CCOSS model results.

[6] Drews' Direct at 3, lines 3 – 6.

Table 1

CenterPoint Energy's Proposed Revenue Apportionment

Class	Present Revenue	CenterPointl's Proposed Revenue	Cost from CenterPoint's's CCOSS	CenterPoint's Present Revenue as Precent of Cost	CenterPoint's Proposed Revenue as Precent of Cost	CenterPoint's Proposed Precent Rate Increase without Gas	**CenterPoint's Proposed Percent Rate Increase without Gas AND without CIP**
	(a)	(b)	(c)	(d) = (a)/(c)	(e) = (b)/(c)	(f)	**%**
Residential	$ 186,132,194	$ 221,673,796	$ 242,093,453	76.88%	91.57%	19.1%	**11.3%**
Comm/Ind-A	$ 8,064,183	$ 9,407,046	$ 10,996,381	73.33%	85.55%	16.7%	**9.7%**
Comm/Ind B	$ 10,963,429	$ 11,160,650	$ 11,843,914	92.57%	94.23%	1.8%	**-3.3%**
Comm/Ind C	$ 40,022,161	$ 42,869,922	$ 36,299,401	110.26%	118.10%	7.1%	**0.2%**
SVDF-A	$ 11,422,878	$ 12,607,721	$ 7,966,896	143.38%	158.25%	10.4%	**0.0%**
SVDF-B	$ 6,639,292	$ 7,423,222	$ 4,324,809	153.52%	171.64%	11.8%	**0.0%**
	[Trade Secret Begins						
LVDF - System							
LVDF - Transportation							
Large Firm Transportation							
							Trade Secret Ends]
Total	$ 284,173,944	$ 328,492,848	$ 332,793,481			15.6%	8.5%

Q. DO YOU HAVE ANY OBSERVATIONS REGARDING CENTERPOINT'S PROPOSED INCREASES IN THE REVENUE RESPONSIBILITY TO THE RESIDENTIAL CUSTOMER CLASS?

A. Yes. I am concerned that CenterPoint's proposed increase is unfairly and disproportionately weighted toward residents and small businesses. As shown in Table 1, CenterPoint is proposing a 15.6 percent overall increase in base rates, but proposes to increase residential rates by 19.1 percent. CenterPoint also proposes an increase to the C&I-A customer class of 16.7 percent. Moreover, when Conservation Improvement Program ("CIP") costs are removed, CenterPoint proposes an overall rate increase of 8.5 percent with an increase of 11.37 percent and 9.7 percent to Residential and C&I-A customer classes, respectively, with *no* proposed rate increase to SVDF-A, SVDF-B, and all Large Volume Dual Fuel customer classes. I am also concerned that CenterPoint fails to consider any non-cost factors, especially the price of alternative fuels, in developing rates for its SVDF-A, SVDF-B, and all Large Volume Dual Fuel customer class.

Q. DO YOU AGREE WITH CENTERPOINT ENERGY'S PROPOSAL?

A. No. Based on the examination of costs (excluding gas costs), the Company's proposed rate increases are substantial and appear to constitute a drastic rate impact ("rate shock") on Residential and Small Commercial customer classes. I am particularly opposed to CenterPoint's proposal to increase residential and C&I-A rates by a higher percentage than the general rate increase for all customer classes. The Company has not shown that its proposed increases in revenue apportionment are reasonable.

3. OAG's Approach to Revenue Apportionment

Q. HOW DO YOU DETERMINE THE APPROPRIATE REVENUE RESPONSIBILITY FOR EACH RATE CLASS?

A. I determined the appropriate revenue responsibility using the following steps:

- First, I reviewed the Company's overall CCOSS, interpreted its results, as well as the alternatives described in OAG witness Mr. Nelson's testimony, and used them as guidelines towards development of my proposed revenue responsibility.
- Second, I determined that a reasonable apportionment was to apportion any increased revenue among rate classes equally.

a. Interpretation Of The CCOSS Results

Q. PLEASE DISCUSS THE VARIOUS CCOSS RESULTS IDENTIFIED IN THIS PROCEEDING.

A. There are several different CCOSS models that have been identified in this proceeding, one sponsored by CenterPoint, one alternative presented by

CenterPoint (which was required by the Commission's order in CenterPoint's last rate case), and additional scenarios presented in the Direct testimony of OAG witness Nelson, which vary based on the main size used within minimum system study. I summarize the results of the CCOSS models presented by CenterPoint and ordered by the Commission, as well as two CCOSS models discussed by Mr. Nelson (the "1-inch main" and "all capacity" models) below in Table 2.

Table 2
CCOSS Results Comparison
(Proposed Rate as a Percentage of Cost)

Class	CenterPoint Recommended (worksheet 6)	Commission Ordered (worksheet 1)	OAG Scenario - 1" pipe	OAG Scenario - All Capacity
	%	%	%	%
Residential	88.23%	92.83%	96.33%	99.35%
Comm/Ind-A	80.84%	86.75%	90.56%	93.85%
Comm/Ind B	100.00%	95.40%	89.71%	85.60%
Comm/Ind C	141.02%	119.40%	104.74%	95.34%
SVDF-A	240.42%	159.65%	150.96%	144.51%
SVDF-B	285.39%	173.04%	160.28%	151.27%
LVDF - System	87.76%	91.30%	82.75%	76.96%
LVDF - Transportation	104.78%	104.05%	89.34%	80.23%
Large Firm Transportation	488.12%	189.68%	169.48%	156.12%

Q. WHAT DO YOU INTERPRET FROM THE CCOSS RESULTS IN THIS CASE?

A. There are five areas that are important for the Commission to consider in interpreting the results in Table 2:

1. Depending on the assumptions, there is a range of costs allocated to the Residential customer class, and other classes. CenterPoint proposes moving closer to full cost. However, the results show that the Residential class is allocated between 88.23 percent to 99.35 percent of the costs, depending on

the allocation of distribution system costs. Small firm classes, in particular the Residential class, is paying its fair share.

2. CenterPoint proposes to maintain the current rates (i.e., no rate increase) for the C&I-C, SVDF and LV classes because the classes "produced revenue surpluses under current rates."[7] The results shown in Table 2 reflect that, in general, those classes are allocated costs in excess of full costs.

3. The CCOSS does not include any consideration that the SVDF and LV classes are interruptible customers that have the proven ability to switch to an alternative fuel. As I will discuss later, the SVDF and LV classes receive a value-of-service by having access to low-cost natural gas, rather than a more expensive, alternative fuel.

4. CenterPoint concludes that the LV class is allocated more than full costs, by using the LV class in total. As shown in Table 2, the LV class is composed of three separate rate classes. When each of the three classes is viewed independently, one customer class is allocated less than full costs.

5. CenterPoint's CCOSS is developed by setting equal rates of return for all customer classes. In so doing, the Company assumes that all classes impose the same level of risk. Not all classes, however, impose the same level of risk. In general, Residential and Small C&I loads are less risky than large commercial and industrial loads. Importantly, CenterPoint's proposed full revenue decoupling removes all revenue risk related to the Residential and all C&I classes.

[7] Drews Direct at 4.

Q. HOW CAN THE COMMISSION MAKE SENSE OF THE VARIOUS COST STUDIES?

A. The Commission can take several actions. Certainly, a Commission could review all of the cost studies and perhaps even create its own to determine what it finds the "correct" model to be. On the other hand, the Commission can recognize that the varying results of the CCOSS are due to often legitimate disagreements among analysts and the judgment that went into preparing the study. In this case, for example, the single largest CCOSS issue is the allocation of the distribution system costs. As shown in Table 2, a change in one assumption (the size of distribution mains used in Minimum System Study) can alter the CCOSS results dramatically. While the Commission may determine that some assumptions are certainly "better" than others, it is within the Commission's prerogative to look at the various CCOSS scenarios, without explicitly adopting a specific model, and rely on the studies to reach a conclusion that is less extreme than the Company's position.

b. OAG's Apportionment of Revenue Responsibility

Q. SHOULD RESULTS FROM THE CCOSS BE THE SOLE DETERMINANT IN DESIGNING RATES?

A. No. While the notion of basing rates solely on cost has some common sense appeal, the concept has several problems. First, as I just discussed, even though the CCOSS is prepared by computer models and contains voluminous pages of details, the CCOSS is based on numerous, subjective decisions and, for that reason, provides a rough estimate of cost at best, not an exact cost of service.

Second, the CCOSS fails to consider other benefits provided to certain customer classes, such as the "value-of-service" provided to interruptible customers.

Q. PLEASE IDENTIFY THE REASONS WHY CCOSS RESULTS SHOULD NOT BE THE SOLE DETERMINANT IN DESIGNING RATES?

A. There are four basic reasons:

1. Cost studies involve the application of judgment as well as the use of load research data that may be unstable and imprecise
2. A cost study is based on a specific revenue requirement. Therefore, a Commission's decisions on revenue requirement issues may create further imprecision in the results of the CCOSS;
3. Some differential in a utility's allowed return among classes may be justified by the risk posed by those classes, which the CCOSS does not account for; and
4. By its very nature, the CCOSS only attempts to determine the utility's cost of serving different customer classes. On advice of counsel, I understand that the Minnesota Supreme Court, the Legislature, and the Commission have directed that non-cost factors also be taken into account when establishing the rate design.

Q. HOW DID YOU APPROACH DEVELOPING REVENUE APPORTIONMENT AMONG CUSTOMER CLASSES?

A. I used the results of the OAG's CCOSS models as presented by Mr. Nelson as a guideline to review and recommend changes to CenterPoint's proposals on revenue apportionment. I believe that CenterPoint's proposed increases are too high for Residential and Small C&I customers at this time, particularly since the Company is proposing to maintain revenue at a rate that is less than the proposed overall system increase to large customers served under the C&I-C, SVDF and LV customer classes. Instead, I recommend smaller increases for smaller customers and correspondingly higher increases for larger customers. However, I also temper the increases for larger customers so that rates are consistent with the overall system increase and interruptible rates are still competitive with alternative fuels.

Q. PLEASE EXPLAIN THE REASONING UNDERLYING YOUR APPORTIONMENT.

A. After identifying and removing the "other revenue" from the overall revenue requirement, I proceed as follows:

- I apportion revenue responsibility to interruptible customers reflecting the "value-of-service" and thus, rates to these classes should be increased, but must remain competitive with alternative fuels.
- I develop the apportionment of the LV classes. A detailed examination of the revenue apportionment for LVDF-System class is below full costs.
- I develop the rates for the C&I-C customer class. The OAG's CCOSS models show that the C&I class is paying only slightly more than their full costs.
- I apportion the revenue responsibility for the Residential and Small C&I classes.

In all cases, I tried to balance my efforts to better match revenues and costs with other rate-design goals.

Q. HOW DO YOU APPORTION REVENUE RESPONSIBILITY TO THE INTERRUPTIBLE (NON-FIRM) CUSTOMERS, INCLUDING THOSE CUSTOMERS ON FLEXIBLE RATES?

A. In determining rates for the Interruptible (non-firm) classes (including those receiving service under flexible rate tariffs), the Commission has indicated a goal of maximizing revenue recovery, subject to the constraints imposed by the markets for alternatives to natural gas service. Thus, apportioning revenue responsibility to Interruptible customers involves estimating how much the utility should be able to recover from these customers, to maximize the benefits to other customers and quantifying the "value-of-service" to non-firm classes.

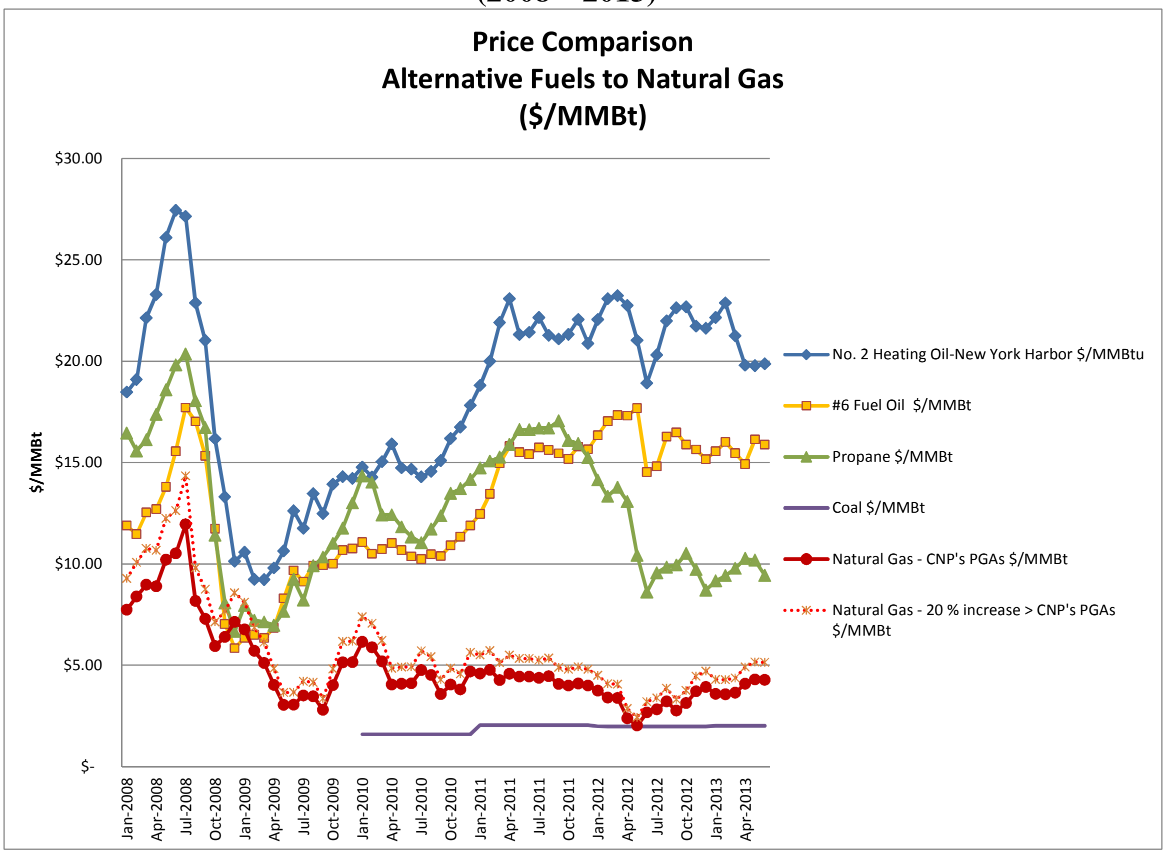
Q. HOW DID YOU "QUANTIFY" THE VALUE-OF-SERVICE FOR CENTERPOINT'S INTERRUPTIBLE CLASSES?

A. As discussed earlier, "value-of-service" rates are rates designed not only to recover costs imposed on the system, but also attempt to quantify the "value" of the natural gas service to non-firm classes. This approach takes into consideration the fact that non-firm classes have an alternative (i.e., coal and fuel oil) to service provided by CenterPoint Energy. Therefore, to quantify the value-of-service, I reviewed the current market for services that can be provided by an alternative fuel provider to determine whether the rates charged to interruptible customers by CenterPoint Energy are appropriate.

Q. WHAT DOES YOUR REVIEW OF THE CURRENT MARKET FOR ALTERNATIVE FUEL INDICATE?

A. I used data provided by CenterPoint to review the market for alternative fuels.[8] This data is presented in graphic form below.

Graph 1
Price Comparison of Alternative Fuel to Natural Gas
(2008 – 2013)



As shown in the graph above, the price of natural gas has remained less than the price of No. 2 fuel oil, No. 6 fuel oil and propane since January, 2009. The differences between natural gas and alternative fuels, with exception of coal, have become substantial during the past 4 years. The price of natural gas has also remained stable at approximately $4.00/MMBTu since January, 2009.

Additionally, the price of natural gas is expected to remain below **[TRADE SECRET BEGINS TRADE SECRET ENDS]** in the near-term.[9] This indicates that natural gas will remain the low-cost option for all interruptible customers, with the exception of those who have the ability to use coal. Finally, I have included a line on the graph which represents CenterPoint's gas price plus 20 percent. Even with gas prices inflated by 20 percent, natural gas prices would remain substantially lower than all alternative fuels, except coal. Therefore, natural gas continues to have a significant value to interruptible customers who use No. 2 fuel oil, No. 6 fuel oil or propane as their alternative fuel.

Q. DO INTERRUPTIBLE CUSTOMERS OBTAIN OTHER BENEFITS THAT SHOULD BE CONSIDERED AN ADDITIONAL VALUE-OF-SERVICE?

A. Yes. Based on CenterPoint's trade secret response to OAG IR 502, part 4, interruptible customers are **[TRADE SECRET BEGINS TRADE SECRET ENDS]** curtailed or interrupted.[10] CenterPoint has 25,000 SVDF-A customers, 4,896 SVDF-B customers and 2,928 LDVF (minus the LDVF Firm transportation customers) for a total of 33,324 interruptible customers. Since CenterPoint's last rate case in 08-1075, CenterPoint interrupted:

[TRADE SECRET BEGINS

(Footnote Continued From Previous Page)

[8] See CenterPoint's Response to OAG IR 501, included as Schedule VCC-2.

[9] See CenterPoint's response to OAG 612 – Attachment 1, included as Schedule VCC- 3.

TRADE SECRET ENDS] As such, interruptible customers, **[TRADE SECRET BEGINS TRADE SECRET ENDS]**, can rely on uninterrupted service without being allocated the same costs as firm customers.

Q. WHAT IS YOUR RECOMMENDED REVENUE APPORTIONMENT REGARDING THE REVENUE RESPONSIBILITY FOR INTERRUPTIBLE CUSTOMERS?

A. While I advocate apportioning revenue based upon the interruptible customer's value-of-service, I am not proposing an increase for interruptible customers to the fullest potential price that may be warranted at this time. Instead, I recommend that the rates for the interruptible classes rise in the same proportion to rates for the firm customer classes.

(Footnote Continued From Previous Page)

[10] See CenterPoint's response to OAG 503 – part 4, included as Schedule VCC- 4.

Q. WHAT IS YOUR RECOMMENDED REVENUE APPORTIONMENT REGARDING THE REVENUE RESPONSIBILITY FOR LV AND C&I-C CUSTOMERS?

A. The OAG's CCOSS shows that not all the LV classes are allocated more than full costs. The OAG's CCOSS also indicates that C&I-C classes are allocated slightly more than full cost. Rather than maintain the current rate with no rate increase as proposed by CenterPoint, I recommend that the rates for the C&I-C and LV classes rise in the same proportion to rates for the firm customer classes.

Q. WHAT IS YOUR RECOMMENDED REVENUE APPORTIONMENT REGARDING THE REVENUE RESPONSIBILITY FOR SMALL FIRM CLASSES?

A. The results from the OAG's CCOSS models show that the Residential class is essentially paying its full allocated costs. Moreover, the Residential and Small C&I will be the source of financial stability if CenterPoint's full decoupling mechanism is approved, which applies only to those classes. Rather than being the only classes to have rate increases imposed upon them, as proposed by CenterPoint, I recommend that the rate increase for all customer classes, including the Residential, C&I-A and C&I-B, be equal to the Commission-approved rate increase. I believe this design is both fair and reasonable.

Q. HOW DO YOU PROPOSE THAT THE REVENUE INCREASE APPROVED BY THE COMMISSION BE APPORTIONED?

A. I recommend that, if the Commission elects to increase revenue, any increase be shared equally among all customer classes. This design is both fair and reasonable.

Q. WHAT DO YOU RECOMMEND AS AN ALTERNATIVE TO CENTERPOINT'S PROPOSED REVENUE APPORTIONMENT?

A. I recommend that the existing revenue apportionment be used. Table 2 below illustrates the rate impact of this proposal.

Table 3

OAG's Energy Proposed Revenue Apportionment ($000s)

Class	Current Base Revenue w/o Gas	CenterPoint's Proposed Base Revenue w/o Gas	*OAG Proposed Revenue Approtionment w/o Gas*
	%	%	%
Residential	65.50%	67.48%	65.50%
Comm/Ind-A	2.84%	2.86%	2.84%
Comm/Ind B	3.86%	3.40%	3.86%
Comm/Ind C	14.08%	13.05%	14.08%
SVDF-A	4.02%	3.84%	4.02%
SVDF-B	2.34%	2.26%	2.34%
LVDF - System	1.49%	1.53%	1.49%
LVDF - Transp	2.62%	2.72%	2.62%
Large Firm Transp	3.25%	2.85%	3.25%
Total	100.00%	100.00%	100.00%

Q. BY PROPOSING THAT CENTERPOINT CONTINUE TO USE ITS EXISTING REVENUE APPORTIONMENT, ARE YOU ENDORSING A SPECIFIC REVENUE REQUIREMENT?

A. No. The OAG opposes CenterPoint's proposed rate increase. I recommend that the Commission use the OAG's proposed revenue apportionment regardless of the revenue requirement that the Commission approves.

Q. IS THERE ANY OTHER NON-COST FACTOR THAT YOU CONSIDERED IN RECOMMENDING AN ACROSS-THE-BOARD APPORTIONMENT OF ANY COMMISSION-APPROVED REVENUE INCREASE?

A. Yes. CenterPoint claims that safety and integrity improvements as well as increased conservation efforts are the two major cost drivers that led to the need for the rate increase in this rate case.[11] CenterPoint acknowledges that *all* customers benefit from safety and integrity investments[12] and conservation efforts[13] as well as the availability to low-cost natural gas.[14] Since all customers benefit from cost drivers prompting the proposed rate increase, all customers should equally share the burden of any increase approved by the Commission. It is fair to do so.

Q. HAS THE COMMISSION EVER ALLOWED A RATE INCREASE THAT WAS NOT APPLIED EQUALLY ACROSS THE BOARD?

A. Yes. In the 2008 CenterPoint rate case, the Commission disagreed with the OAG and set proportionately higher rates for residential ratepayers than for other customer classes based on a Commission finding that: "The shift in revenue responsibility is reasonable, not unduly burdensome, and adequately supported by substantial evidence."[15] However, in the 2008 NSP electric rate case: "While NSP assumed an overall rate increase of 6.0 percent, it recommended increasing rates for the Residential Class by 7.6 percent to bring it modestly closer to the allocation supported by the CCOSS"[16] The Commission ultimately tempered the rate increase to residential customers, stating it would "not make any adjustments

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[11] Voltherms Direct at 7.
[12] See CenterPoint's response to OAG 610, which is included as Schedule VCC-5.
[13] See CenterPoint's response to OAG 611, which is included as Schedule VCC-6.
[14] See CenterPoint's response to OAG 612, which is included as Schedule VCC-7.
[15] ORDER In the Matter of an Application by CenterPoint Energy for Authority to Increase Natural, 2010 WL 149133, Minn. P.U.C., 2010 (January 11, 2010).
[16] FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER 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-08-1065 (October 23, 2009) at 50.

that would further expand the share of the rate increase to be recovered from the Residential Class."[17] I recommend that the Commission should do the same here.

C. RESIDENTIAL AND SMALL GENERAL SERVICE CUSTOMER CHARGES

Q. PLEASE SUMMARIZE CENTERPOINT'S PROPOSED CHANGES TO RESIDENTIAL AND SMALL GENERAL SERVICE MONTHLY CUSTOMER CHARGES.

A. CenterPoint proposes to increase its monthly customer charges for its Residential and C&I-A and C&I-B class. The Company also proposes that the monthly customer charge for the C&I-C, SVDF and LVDF be maintained at the current levels, Table 4 below depicts both CenterPoint's present and proposed customer charges.

Table 4

CenterPoint Energy's Present and Proposed Customer Charges

Class	Current Monthly Customer Charge	CNP Proposed Monthly Customer Charge	Dollar Increase	Percent Increase
	$	$	$	%
Residential	$ 8.00	$ 15.00	$ 7.00	87.50%
Comm/Ind-A	$ 12.00	$ 15.00	$ 3.00	25.00%
Comm/Ind B	$ 18.00	$ 21.00	$ 3.00	16.67%
Comm/Ind C	$ 43.00	$ 43.00	$ -	0.00%
SVDF-A	$ 60.00	$ 60.00	$ -	0.00%
SVDF-B	$ 90.00	$ 90.00	$ -	0.00%
LVDF	$ 600.00	$ 600.00	$ -	0.00%

Q. WHAT IS CENTERPOINT'S JUSTIFICATION TO INCREASE CUSTOMER CHARGES TO RESIDENTIAL, C&I-A AND C&I-B CLASSES?

A. CenterPoint states that it is proposing to use an increase in the Residential and Small C&I customer charge to remove or reduce intra-class subsidies:

[17] FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER 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

(Footnote Continued on Next Page)

> I propose moving the rates for these classes closer to their cost of service and reducing the subsidies caused by the current rate design – particularly intra-class subsidies. Specifically, I propose increasing the fixed basic charge for all three of these classes by moving toward a Straight Fixed Variable ("SFV") rate design…[18]

Q. CENTERPOINT IDENTIFIES THE MONTHLY BASIC CHARGE FROM THE CCOSS AS $21.96 FOR RESIDENTIAL CUSTOMERS. DO YOU AGREE?

A. No. In Table 4 of his Direct testimony, Mr. Drews lists $21.96 as the cost to provide service to Residential customers. Mr. Drews uses $21.96 as the monthly cost to promote his recommendation to move the Residential class closer to a SFV rate design. When viewing the potential monthly costs, the OAG's CCOSS results indicate the residential monthly costs list below in Table 5:

Table 5

Comparison of Different Residential Monthly Costs

Class	Monthly Cost from CCOSSs ($)
CenterPoint Recommended (worksheet 6)	21.96
Commission Ordered (worksheet 1)	20.59
OAG Scenario - 1" pipe	18.81
OAG Scenario - All Capacity	13.67

Table 5 contains a range of residential monthly charges that occur when one of CenterPoint's CCOSS assumptions (i.e., the allocation of distribution system costs) is changed. Depending on the different CCOSS scenarios used, the

(Footnote Continued From Previous Page)
No. E-002/GR-08-1065 (October 23, 2009) at 51.
[18] Drews Direct at 5.

proposed monthly charge of $15.00 per month may exceed the CCOSS-identified monthly costs to serve a Residential customer.

Q. ARE CENTERPOINT'S PROPOSED RESIDENTIAL CUSTOMER CHARGES CONSISTENT WITH CUSTOMER CHARGES PREVIOUSLY APPROVED BY THE COMMISSION?

A. No. As shown below in Table 6, CenterPoint's proposed Residential customer charge of $15.00 is nearly double the simple average of Commission-approved customer charges for regulated natural gas companies in Minnesota.

Table 6

Current Commission-Approved Customer Charges

LDC	PUC-Approved Monthly Residential Charge
Alliant Energy - Interstate Power	$ 5.00
CenterPoint Energy	$ 8.00
Greater Minnesota Gas	$ 8.50
Great Plains Natural Gas Company	$ 6.50
Minnesota Energy Resource	$ 8.50
Xcel Energy	$ 9.00
Average	$ 7.58

CenterPoint's proposed increase is not consistent with other customer charges in Minnesota. A proposed increase to $15.00 would exceed the highest customer charge of $9.00 by 66.67 percent.

Q. DO YOU HAVE ANY OBSERVATIONS REGARDING CENTERPOINT'S PROPOSED CUSTOMER CHARGES ON THE VARIOUS CLASSES?

A. Yes. As with its proposed revenue apportionment, CenterPoint proposes to maintain the current customer charges for C&I-C, SVDF, and LV class, but proposes to move the Residential and Small C&I customer charges closer to cost by proposing to apply a "modified" SFV rate design. As proposed, the increase in customer charges for the residential class is 87.50 percent.

Q. ARE CENTERPOINT'S PROPOSED CUSTOMER CHARGES REASONABLE?

A. No. CenterPoint's proposed customer charges for the Residential class represents an increase of 87.50 percent over current customer charges and an increase of 25.00 percent and 16.67 percent for C&I-A and C&I-B classes, respectively. An increase of such magnitude has not been instituted by the Commission for CenterPoint's Residential or Small General Service customer charges since 1993, when CenterPoint's customer classes were restructured to separate residential customers from small business customers. Along with the restructuring in 1993, customer charges were increased substantially as part of a settlement in part to reflect the new classes, and were not raised again until 2005. Table 7 below presents the customer charge history for CenterPoint's Residential class.

Table 7
CenterPoint Energy's Historic Customer Charges[19]

Date	Residential	% change	C&I-A	% change	C&I-B	% change	CNP Rate Cases
Jul-93	$ 3.00		$ 3.00		$ 3.00		
Oct-93	$ 5.00	66.67%	$ 9.00	200.00%	$ 15.00	400.00%	G-008/GR-92-400 - eliminated free 3ccf
Oct-94	$ 5.00	0.00%	$ 9.00	0.00%	$ 15.00	0.00%	G-008/GR-93-1090 - No change to Basic Charges
Jun-96	$ 5.00	0.00%	$ 9.00	0.00%	$ 15.00	0.00%	G-008/GR-95-700 - No change to Basic Charges
Aug-05	$ 6.50	30.00%	$ 9.50	5.56%	$ 15.00	0.00%	G-008/GR-04-901
May-07	$ 6.50	0.00%	$ 9.50	0.00%	$ 15.00	0.00%	G-008/GR-05-1380 No change to Basic Charges
Jul-10	$ 8.00	23.08%	$ 12.00	26.32%	$ 18.00	20.00%	G-008/GR-08-1075

Clearly, the proposed rate increase of 87.50 percent for the Residential class is inconsistent with the Company's prior customer charges and previous Commission-approved percent increases, particularly when the Commission approved

[19] See CenterPoint's response to OAG 10, which is included as Schedule VCC-8.

substantial increases (between 20 and 30 percent) to CenterPoint's customer charges in its last rate case. CenterPoint's proposed customer charge is unprecedented and should not be accepted by the Commission.

Q. DOES CENTERPOINT'S PROPOSED RATE DESIGN PROMOTE MORE EFFICIENT USE OF NATURAL GAS?

A. No. Economic efficiency requires a price structure based on the marginal or incremental cost of producing an additional unit of output. In contrast, the cost study relied on by the Company in proposing the increase reflect average or embedded (or fixed) costs. Prices based on average or embedded costs send no efficiency signals whatsoever. Thus, CenterPoint has not shown that economic efficiency is advanced by their proposal.

Q. DOES CENTERPOINT'S PROPOSED COST INCREASE MOVE THE RESIDENTIAL AND SMALL C&I CLASSES CLOSER TO THEIR COST OF SERVICE?

A. No. The "cost" referred to by Mr. Drews reflects an average of costs across customers, rather than customer-specific costs. In other words, the cost imposed by some customers will be greater than the average and the cost imposed by other customers will be lower than average. CenterPoint does not provide a study identifying which customers impose greater or lesser costs on the system. Despite its claim that the customer charge helps to eliminate intra-class subsidization, there is no evidence to conclude whether (or to what extent) any subsidization exists.

Q. WHAT IMPACTS DO HIGH CUSTOMER CHARGES HAVE ON INVESTMENTS IN ENERGY EFFICIENCY?

A. High customer charges and relatively low energy charges reduce incentive for consumers to conserve by reducing the payback on investments in efficient appliances and other conservation efforts. They also reduce the ability of consumers to control their own bill through their own consumption decisions. On the other hand, lower customer charges and relatively higher energy charges make consumers' bills more sensitive to consumption. A higher energy charge also increases the potential savings that can be achieved through conservation. It is important that consumers have the ability to control their bill by consuming less.

Q. DOES CENTERPOINT IDENTIFY ANY BENEFITS OF CENTERPOINT'S PROPOSED RATE DESIGN FOR THE RESIDENTIAL AND SMALL GENERAL SERVICE CUSTOMER CLASS IDENTIFIED BY MR. DREWS?

A. Yes. In his Direct testimony, Mr. Drews claims that when compared to the Company's current rate structure, the proposed rate design has the following benefits for Residential and Small C&I classes:

1. Customers' bills and the Company's revenues will be less susceptible to the effects of abnormal weather;
2. Customers will have more stable monthly bills thus simplifying and easing their monthly budgeting;
3. Customers will have lower bills during the winter months when their gas bills are highest due to increased usage;

4. The proposed rate design will be more economically efficient than the present rate design, thus promoting more efficient use of natural gas; and
5. The Company will have a more reasonable opportunity to recover its non-gas cost of service including a fair return on its investments.[20]

Q. DO YOU AGREE THAT THERE ARE BENEFITS ASSOCIATED WITH CENTERPOINT'S PROPOSED RATE DESIGN?

A. No, not for Residential and Small C&I classes. The proposed rate structure does not provide customers with any benefits that are not already mandated by Minn. Stat. 216B.098, subd. 2, which states that utilities must offer customers a budget billing plan.[21] In response to OAG 619[22], Mr. Drew acknowledges that CenterPoint's current Budget Billing Plan allows Residential customers:

1. To request a twelve month payment plan to pay in approximately twelve equal payments;
2. To have higher summer payment amounts than otherwise and lower winter payment amounts than otherwise assuming higher winter use than summer use;
3. To defer the bill impact of abnormal weather; and
4. To have the same total budget for annual usage whether on the Budget Billing Plan or not.

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[20] Drews Direct at 6-7.
[21] Minnesota Stat. 216B.098, subd. 2.
[22] See CenterPoint's response to OAG 624, which is included as Schedule VCC-10.

Thus, Residential customers by their own choice can receive the benefits alleged by CenterPoint in the present rate structure by signing up for the Budget Billing Plan. A new rate design provides no additional benefits to consumers.

Q. WHAT IS CENTERPOINT'S POSITION REGARDING THE "RATE SHOCK" OF IMPOSING AN 87.50 INCREASE IN RESIDENTIAL CUSTOMER CHARGES?

A. Mr. Drews believes that the proposed increase will not cause rate shock. Mr. Drews states:

> To begin with, customers pay their total bill amount and don't separately pay the individual components of their utility bills. Customers are concerned with receiving good value for the total amount of their monthly bill. It is important to remember that when designing rates within a class, the total amount an average customer would pay each year remains unchanged.[23]

Q. WILL THERE BE "RATE SHOCK" BY IMPOSING AN 87.50 PERCENT INCREASE IN RESIDENTIAL CUSTOMER CHARGES?

A. Yes. Any increase in rates has the potential of rate shock if it is large, unprecedented and inconsistent with the past increases. An 87.50 percent increase is large, unprecedented and inconsistent with past increases and therefore, constitutes rate shock. In addition, Mr. Drews' focus on the "average customer" fails to recognize that such a shift in rate design will have widely disparate impacts on specific customers within a class. Low usage customers, for example, will receive a much larger percentage increase on their overall monthly bill than high usage customers as a result of CenterPoint's proposal.

[23] Drews Direct at 12.

Q. ARE THERE ANY OTHER RATE DESIGN CONSIDERATIONS THAT CENTERPOINT FAILS TO ADDRESS?

A. Yes. CenterPoint fails to acknowledge that its residential ratepayers are unable to pass the high cost of their energy bills off to other parties through sales of their products or services or take a tax deduction like CenterPoint's business customers.

Q. DID CENTERPOINT ADDRESS THE ISSUE OF CUSTOMER REACTION TO A LARGE PERCENT INCREASE IN RESIDENTIAL CUSTOMER CHARGES?

A. Yes. Mr. Drews refers to a customer survey conducted by CenterPoint Witness Gastineau to gauge customer reaction to the proposed rate design. Mr. Gastineau presents a survey performed by Hart Research Associates ("Hart") who interviewed 600 residential customers. From the interviews, Mr. Gastineau concludes[24]:

- The customers found the proposed rate structure acceptable;
- Low-income customers showed the greatest acceptance of the Company's proposal;
- Low-usage customers showed the greatest acceptance of the Company's proposal;
- Renters show a greater acceptance of the proposal than home owners; and
- Customers are more likely to pay close attention to the total amount of the bill rather than individual components.

[24] Gastineau Direct at 19-20.

Q. DO YOU HAVE CONCERNS REGARDING MR. GASTINEAU'S CONCLUSIONS ABOUT THE CUSTOMER SURVEY?

A. Yes. After reviewing the questions asked in the survey, I have several concerns:

- The survey uses leading questions without specific details. For example, one question asks:

  > There may be a proposal from your natural gas company to raise the fixed base charge and lower the variable charges. Under this plan, spring and summer will be slightly higher now, but winter natural gas bills would be slightly lower. The amount of the bill over the course of the typical year would not change….Would you find this proposal to be acceptable or unacceptable?[25]

  The survey question does not indicate that CenterPoint is proposing to increase the fixed monthly charge from $8 to $15, or by approximately 87.50 percent. The response from consumers would not be the same if CenterPoint had initially included specific details in the survey;

- The survey does not inform customers that the Company has a Budget Billing Plan that address many of the same rate design attributes (i.e., balancing of summer and winter bill) as CenterPoint's proposed rate design, that may be applied for on an individual, voluntary basis rather than a formal, mandatory rate tariff imposed on all residential customers;

- The survey is not representative of the Residential customer, because the methodology to weight the results to reflect the CenterPoint's demographic is flawed. According to Mr. Gastineau's response to OAG 624[26], the survey did not match its weights *exactly* to the Census data; they

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[25] Gastineau Direct, Schedule 4, at 6.
[26] Response to OAG IR 624 is included as Schedule VCC-10.

were using the latter as a reference point, not as the final word on what the survey's demographics should be. Moreover, only two of the respondents characteristics (age and education) were weighted in a yet-to-be explained manner, while the other characteristics (gender, home ownership, number of residing adults, and household income) were not weighted. In other words, the survey results identified 183 customers[27] out of 501 customers (or approximately 37 percent) that answered the income question, and have household incomes of greater than $75,000 per year. The Company has not shown that this income level is a representative amount of CenterPoint's general population; and

- Based on my experience, the survey does not reflect the sentiments of Minnesota's Residential customers and are contrary to regulatory history of customer charges in Minnesota.

In sum, CenterPoint's customer survey should be given little credence. Instead, the Commission should listen to consumers' views about the 87.50 percent increase that are presented in public comments and at the public hearings held during the course of this proceeding.

Q. HAVE CENTERPOINT'S RESIDENTIAL CUSTOMERS STATED SUPPORT FOR THE INCREASE IN CUSTOMER CHARGES?

A. No. As of the writing of this testimony, the Commission has received a limited number of public comments. Four of the public comments specifically address the increase in the monthly charge:

[27] Gastineau Direct, Schedule 4, page 19 of 60.

1. Mr. Mike Beck states that he is "in total opposition to CenterPoint Energy Proposed rate increases as he feels that they are not necessary to raise basic residential charge from $8 to $15 per month."[28]
2. Ms. Mary Weber recommends that the Commission deny CenterPoint's request to increase the basic residential charge from $8.00 to $15.00 because it almost doubles the current charge, it can wipe out any bill reduction due to energy conservation, and it is extraneous and has no relation to actual gas usage.[29]
3. Mr. Peter Freund states, "I have a very strong objection to the very large increase, approx 88% for the residential monthly basis charge. I read that the decrease in delivery charge per therm is suppose to off set that, but this does not encourage conservation, it discourages it."[30]
4. Ms. Janice Richardson writes, "Increasing the basic charge for residential customers from $8 to $15 seems extraordinarily burdensome and discriminatory for persons with modest uses of natural gas. Raising the basic delivery fee by over 80% even while reducing the delivery charge by 32% will result in a very large increase in a monthly bill, especially during the summer months when natural gas usage is low."[31]

Q. WHY DO YOU CONSIDER CUSTOMER CHARGES SO IMPORTANT?

A. The OAG views customer charges as an important ratemaking device that is of great concern to Residential and Small Business customers. The Commission has

[28] See the public comments of Mr. Mike Beck, which is included as Schedule VCC-11.
[29] See the public comments of Ms. Mary Weber, which is included as Schedule VCC-12.
[30] See the public comments of Mr. Peter Freund, which is included as Schedule VCC-13.

also confirmed that customer charges are an important ratemaking device, but has expressed reservations about permitting ever greater reliance on customer charges as ratemaking devices. In its Order in Docket No. G-002/GR-04-1511, the Commission has stated that increasing residential customer charges need careful scrutiny, not just because, like all rate design proposals, they require careful balancing of competing policy goals,[32] but because:

> In final Orders in the past several rate cases in which the Commission has examined customer charges, it has expressed grave reservations about permitting greater reliance on these ratemaking devices.[33] Customer charges tend to confuse and alienate customers, neutralize conservation incentives, burden low income households, and perpetuate pricing structures ill-suited to competition. For these reasons, the Commission will maintain Minnegasco's customer charges at their current levels.
>
> Customer charges are especially troublesome in the residential context. The cardinal goals in residential ratemaking are making rates understandable, making them easy to administer, and maintaining public confidence in their fairness. Customer charges work at cross purposes with these goals.[34]

In the same Order, the Commission also notes:

> The other concern in the residential context is that unit pricing offers some measure of rate relief to low income, low usage households. The Commission's institutional experience is that every utility's customer base includes some households in this category.[35]

(Footnote Continued From Previous Page)

[31] See the public comments of Ms. Janice Richardson, which is included as Schedule VCC-14.

[32] PUC's *Order Accepting and Modifying Settlement and Requiring Compliance Filings*, in Docket Number G-002/GR-04-1511dated August 11, 2005, at 7

[33] These include Minnegasco's last rate case, 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, and others: In the Matter of the Application of Minnesota Power for Authority to Increase its Schedule of Rates for Retail Electric Service in the State of Minnesota, Docket No. E-015/GR-94-1; In the Matter of the Request of Interstate Power Company for Authority to Change its Rates for Gas Service in Minnesota, Docket No. G-001/GR-95-406; In the Matter of the Request of Interstate Power Company for Authority to Change its Rates for Electric Service in Minnesota, E-001/GR-95-601.

[34] PUC's *Finding of Fact, Conclusions of Law and Order*, dated June 10. 1996 in Docket G008/GR-95-700, at 52, 53.

[35] PUC's *Finding of Fact, Conclusions of Law and Order*, dated June 10. 1996 in Docket G008/GR-95-700, at 52, 53.

The Commission's concerns regarding Residential customer charge remains as true today as they have been in the past. Residential customer charges continue to confuse and alienate customers, neutralize conservation incentives and burden low income households. The best way in this case to eliminate customer confusion and alienation is to maintain the residential customer charges.

Q. WHAT IS YOUR RECOMMENDATION FOR CENTERPOINT'S CUSTOMER CHARGES?

A. I recommend that the Commission maintain the current customer charge and not increase Residential and Small C&I classes as proposed by CenterPoint. If the Commission approves CenterPoint's full revenue decoupling mechanism, I recommend that the residential customer charge should be reduced to $5.00 per month, since full decoupling stabilizes the revenue CenterPoint will receive from the Residential class. My recommendation allows CenterPoint a reasonable opportunity to meet its revenue requirement -- it simply allows CenterPoint to recover more of its revenue requirement through the volumetric energy charge. My recommendation promotes customer acceptance by maintaining historical continuity and providing customers greater control over their monthly bills. It also provides greater incentive for customers to conserve energy. My recommendation properly balances the many rate design objectives the Commission must consider in setting rates and is both fair and reasonable.

IV. REVENUE DECOUPLING

A. INTRODUCTION

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. My testimony and my associated recommendation in this section are limited to the Company's specific revenue decoupling proposal as filed in this rate case. I also address specific concerns regarding CenterPoint's proposal to incorporate a weather normalization adjustment ("WNA") as a component of decoupling that would use 10-years of weather date, rather than the 30-year basis which is prevalent with state-approved WNA programs across the United States.

Q. HOW IS YOUR TESTIMONY IN THIS SECTION ORGANIZED?

A. My testimony in this section is divided into five sections:

- Minnesota's energy conservation legislation;
- CenterPoint's full decoupling proposal;
- The OAG's analysis of CenterPoint's full decoupling proposal;
- OAG recommendations if the Commission moves forward with CenterPoint's full decoupling proposal; and
- The weather data basis of the proposed WNA component of the Company's full revenue proposal.

B. MINNESOTA'S ENERGY CONSERVATION LEGISLATION

Q. WHAT IS THE PURPOSE OF THIS SUBSECTION?

A. The purpose of this section is to introduce Minnesota legislative actions that set the stage for future energy conservation and the potential for the implementation of a "pilot" decoupling mechanism in Minnesota.

Q. PLEASE IDENTIFY THE SPECIFIC LEGISLATION THAT RELATES TO ENERGY CONSERVATION IN MINNESOTA.

A. With respect to energy conservation, the Next Generation Energy Act ("NGEA") specifically addresses Minnesota's energy conservation goal:

> Sec. 4. **[216B.2401] ENERGY CONSERVATION POLICY GOAL.** It is the energy policy of the state of Minnesota to achieve annual energy savings equal to 1.5 percent of annual retail energy sales of electricity and natural gas directly through energy conservation improvement programs and rate design, and indirectly through energy codes and appliance standards, programs designed to transform the market or change consumer behavior, energy savings resulting from efficiency improvements to the utility infrastructure and system, and other efforts to promote energy efficiency and energy conservation.

As shown in the language above, the NGEA is an energy initiative which establishes a statewide energy savings goal of 1.5 percent of annual retail electric and gas sales through energy efficiency. The NGEA identifies two direct means of doing this--through energy conservation improvement programs ("CIP"), and through rate design. As discussed below in more detail, the NGEA requires utilities to achieve a portion of this energy savings goal through CIP requirements. "Decoupling" is an example of a rate design mechanism provided for in the NGEA. The NGEA allows utilities to implement pilot projects to try "decoupling" the utility's revenue from changes in energy sales to encourage the utility to promote more conservation.

Q. WHAT ARE THE NGEA PROVISIONS REGARDING "DECOUPLING" IN MINNESOTA?

A. Minnesota Statute § 216B.2412 specifically directed the Commission to approve at least one pilot decoupling program. Minnesota Statute § 216B.2412 (2012) states:

> Subdivision 1. Definition and purpose. For the purpose of this section, "decoupling" means a regulatory tool designed to separate a utility's revenue from changes in energy sales. The purpose of decoupling is to reduce a utility's disincentive to promote energy efficiency.
>
> Subd. 2. Decoupling criteria. The commission shall, by order, establish criteria and standards for decoupling. The commission may establish these criteria and standards in a separate proceeding or in a general rate case or other proceeding in which it approves a pilot program, and shall design the criteria and standards to mitigate the impact on public utilities of the energy savings goals under section 216B.241 without adversely affecting utility ratepayers. In designing the criteria, the commission shall consider energy efficiency, weather, and cost of capital, among other factors.
>
> Subd. 3. Pilot programs. The commission shall allow one or more rate-regulated utilities to participate in a pilot program to assess the merits of a rate-decoupling strategy to promote energy efficiency and conservation. Each pilot program must utilize the criteria and standards established in subdivision 2 and be designed to determine whether a rate-decoupling strategy achieves energy savings. On or before a date established by the commission, the commission shall require electric and gas utilities that intend to implement a decoupling program to file a decoupling pilot plan, which shall be approved or approved as modified by the commission. A pilot program may not exceed three years in length. Any extension beyond three years can only be approved in a general rate case, unless that decoupling program was previously approved as part of a general rate case. The commission shall report on the programs annually to the chairs of the house of representatives and senate committees with primary jurisdiction over energy policy.

Q. BASED ON THE LANGUAGE OF MINN. STAT. § 216B.2412, WHAT ARE THE BASIC POLICY REQUIREMENTS OF A PILOT DECOUPLING MECHANISM?

A. To implement the statutory language, a decoupling mechanism must achieve the following:

- Reduce a utility's disincentive to promote energy efficiency;
- Be designed to determine whether a rate-decoupling strategy achieves energy savings; and
- Not adversely impact ratepayers.

Q. HOW WOULD UTILITIES HAVE A DISINCENTIVE TO SERVE THE NEEDS OF THEIR OWN CUSTOMERS?

A. In general, utilities claim that, because rates are set such that fixed costs are spread over the amount of energy consumers buy, when consumers use less energy than the sales forecast approved in the utility's last rate case, the utility does not earn enough money to recover the costs approved in that rate case. Thus, when fixed costs, such as the customer charges, are set below cost, the remaining costs are spread over the per-unit charges applied to the amount of gas sold to customers. Moreover, utilities wish to maximize revenue, meaning that they prefer to see their sales being higher than the sales forecast approved in the previous rate case. Thus, by this profit motive, utilities have a disincentive to promote energy conservation on their own systems.

Q. YOU IDENTIFIED THAT THE MECHANISM SHOULD NOT NEGATIVELY IMPACT RATEPAYERS. WHAT KINDS OF FACTORS ARE NEEDED TO ENSURE THAT THIS GOAL IS MET?

A. There are a number of factors. For example, the mechanism should not take away the ratepayers' incentive to conserve energy, since it is ratepayers who ultimately decide whether or not to implement a conservation measure. The mechanism should accomplish more than the Company would otherwise be required to achieve by law without a decoupling mechanism. The mechanism should ensure that if there is either no commitment, or just a minimal commitment, by a utility to accomplish more conservation saving than required by law with decoupling in place, then decoupling does not serve its intended purpose. Other goals of decoupling include ensuring that rates are understandable and are set at a reasonable level.

Importantly, it is critical to ensure that ratepayers are not negatively impacted. To accomplish this, specific detailed measures must be established to show how decoupling achieves energy savings and accelerates the historical declining use per customer trend. For example, if a decoupling proposal does not have the ability to measure the impacts of decoupling in pre-specified quantitative terms (*i.e.*, a decrease in the use-per-customers), ratepayers will be subjected to a pilot project without meaning and purpose. Moreover, any decoupling proposal that is absent a measurable metric of energy saving is inconsistent with Minnesota law, which, as noted above, requires that a pilot program "shall be designed to determine whether a rate-decoupling strategy achieves energy savings."

Q. WHAT IS THE COMMISSION'S OBLIGATION REGARDING DECOUPLING UNDER MINNESOTA LAW?

A. The only reference to decoupling in Minnesota law states that the Commission *shall* approve one or more decoupling *pilots* but only if it does not adversely impact utility ratepayers, which is required by Minnesota law.[36] The Commission has fulfilled its statutory obligation in approving two, three-year decoupling pilots for CenterPoint Energy ("CenterPoint") and MERC.

Q. IS THE COMPANY'S NEW DECOUPLING PROPOSAL CONSISTENT WITH THE 2007 NGEA?

A. No. As discussed below in Section IV, entitled "OAG's Analysis of CenterPoint's Decoupling Proposal," CenterPoint's proposed decoupling is not designed to determine whether a rate-decoupling strategy achieves energy savings, and CenterPoint's proposal does not adhere to the three basic tenets of the NGEA decoupling legislation.

Q. WHAT IS UNIQUE ABOUT CENTERPOINT'S NEW DECOUPLING PROPOSAL?

A. Unlike previous incidences regarding decoupling, the matter before the Commission in this proceeding is a permanent, "full" revenue decoupling proposal proposed by CenterPoint. CenterPoint recently abandoned its "partial" decoupling pilot and now wants Commission approval to implement a permanent program, similar to (if not exactly like) MERC's three-year, "full" decoupling

[36] Minnesota Statute 214B.2412, Subd. 2 states "The commission may establish these criteria and standards in a separate proceeding or in a general rate case or other proceeding in which it approves a pilot program, and shall design the criteria and standards to mitigate the impact on public utilities of the energy savings goals under section 216B.241 without adversely affecting utility ratepayers."

pilot approved by the Commission in Docket No. G007,011/GR-10-977.[37] MERC's pilot is in-progress and the results and impacts of the pilot are yet unknown.

C. THE COMPANY'S REVENUE DECOUPLING PROPOSAL

Q. PLEASE DESCRIBE THE COMPANY'S DECOUPLING PROPOSAL IN THIS PROCEEDING.

A. CenterPoint proposes what it has termed a Revenue Decoupling Rider ("RD Rider") to replace the previously-approved "pilot" tariff entitled the "Conservation Enabling Rider" ("CE Rider"). The Company has not requested the CE Rider be extended. According to Company Witness Paul Gastineau,

> The CE Rider was a partial decoupling mechanism because it did not completely separate the Company's revenue from changes in energy sales for the applicable rate class. [38]

Q. DOES CENTERPOINT IDENTIFY FLAWS IN THE CE RIDER?

A. Yes. On pages 6 and 7 of his Direct Testimony, Mr. Gastineau identifies four flaws in CenterPoint's Commission-approved partial decoupling pilot mechanism:

1. Weather was much warmer than normal-weather used to set the Company's rates in the last rate case and in the CE Rider calculation;
2. The weather-normalization methodology could not be updated;
3. The actual number of customers was used to calculate the allowed non-gas revenue; and
4. The link between sales and revenues was not fully severed.

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[37] CenterPoint's proposed full decoupling calculations are based on a comparison of actual usage compared to weather-normalized test-year sales volumes rather than comparing weather-normalized annual usage to weather-normalized test-year sales volumes (as was the calculation with its partial decoupling pilot program).

Q. PLEASE GENERALLY DESCRIBE THE COMPANY'S NEW FULL DECOUPLING PROPOSAL.

A. CenterPoint proposes the RD Rider, which fully decouples its non-gas revenues from its sales for all firm classes. CenterPoint requests that the proposed RE Riders not have a set term (i.e. to be a permanent program) to be reviewed annually and in the next rate case.

Q. HOW WOULD CENTERPOINT'S NEW MECHANISM WORK?

A. As proposed, the RD Rider is a full decoupling mechanism that:

- Provides an adjustment for any deviation (including weather) of actual sales from expected sales;
- Uses the actual non-gas revenue (instead of the weather-normalized non-gas revenue) by class to determine whether a shortfall or surplus exists;
- Calculates the allowed non-gas revenue using the greater of either the rate case's number of customers or the actual number of customers during the evaluation period;
- Increase the adjustment cap from 3 to 5 percent of the total charge.

Q. PLEASE IDENTIFY THE CUSTOMER CLASSES TO WHICH THE PROPOSED MECHANISM WILL APPLY.

A. CenterPoint proposes to impose its full decoupling mechanism on the Residential, Commercial-A, C&I-B, C&I-C and Small Volume Firm Transportation rate classes. CenterPoint does not propose to include any of the Small Volume and

(Footnote Continued From Previous Page)
[38] Gastineau Direct at 4.

Large Volume Dual Fuel, Large Volume Firm and Large Volume Sale and Transportation customer classes in its new RD Rider.

D. THE OFFICE OF THE ATTORNEY GENERAL'S ANALYSIS

Q. BEFORE BEGINNING THIS SUBSECTION, DO YOU HAVE ANY QUALIFYING REMARKS?

A. Yes. I am a utility economist and not an attorney. However, during the analysis of decoupling, an analyst (financial, economic or accounting) must be aware of the enabling statutes and rules. Unlike other endeavors, public utility regulation is largely driven by statutes and rules and, as such, non-lawyer experts providing testimony must have a working knowledge of Minnesota law related to regulated utilities. To the extent that it is pertinent to my testimony, I present the related statutes and rules in order to establish the context and framework of my analysis.

Q. DOES CENTERPOINT CONSIDER THE ADVERSE RATEPAYER EFFECTS OF RD-RIDER?

A. No. It is important to note that the primary requirement of the Commission's overall legislative directive is to design criteria to mitigate the impact of energy conservation programs on utilities without adversely affecting ratepayers. To do so, the Commission needs to recognize that the phrase "without adversely affecting utility ratepayers" establishes an enhanced public interest standard. CenterPoint is recommending a full decoupling model that is still under evaluation in MERC's pilot program, in which no determination has been made whether full decoupling can be implemented "without adversely affecting utility ratepayers." CenterPoint has not shown that ratepayers would not be adversely impacted by its adoption of a full decoupling program.

Q. PLEASE IDENTIFY THE ADVERSE FACTUAL AND POLICY IMPLICATIONS OF CENTERPOINT'S PROPOSAL THAT YOU ADDRESS.

A. I analyzed the following adverse factual and policy implications of CenterPoint's RD Rider proposal:

- Application of RD Rider to firm rate classes only;
- Risk shifting from the Company to captive ratepayer;
- Potential unintended and undesirable from risk shifting;
- Price signal distortion to subjected ratepayers;
- Possible change in consumer's perception of energy efficiency;
- The guarantee of a predictable revenue stream, independent of all the uncertainties; and
- The pilot status of full revenue decoupling mechanisms in Minnesota.

Q. PLEASE DISCUSS THE POTENTIAL ADVERSE EFFECTS OF APPLYING FULL REVENUE DECOUPLING TO FIRM CLASSES ONLY.

A. As proposed, CenterPoint's full decoupling mechanism applies to only firm "captive" ratepayers. Interruptible sales and transportation consumers in the Company's SVDF-A, SVDF-B and LV customer classes are exempt from the full decoupling proposal. The "throughput incentives" still exist for large consumption customers, which means CenterPoint maintains a profit motive to sell (not conserve) more natural gas to customer classes not subjected to full decoupling. This is best illustrated in the Company's response to OAG IR 804 that shows an increase in the amount of throughput of non-decoupled classes by 25.68 percent from 58,172,766 Dkt in 2008 to 73,111,904 Dkt in 2012.[39]

In addition, if CenterPoint is truly advocating for energy efficiency and conservation, then a full decoupling program should apply to all customer class. The Commission should note that, with the exception to "opt-out" customers, all customers are eligible to participate in CIP, all customer classes pay for CIP, and all customer classes contribute to the Company's revenue stability. The question provoked by CenterPoint's application of revenue decoupling to only captive ratepayers is a matter of fairness, why one customer class or one select group of customer classes would be at a disadvantage to the advantage of other customer (non-captive) classes, the Company and its shareholders.

Q. WHAT ARE THE POTENTIAL ADVERSE FACTUAL AND POLICY IMPLICATIONS OF SHIFTING RISK FROM THE COMPANY TO CAPTIVE RATEPAYER?

A. The proposed RD Rider allows unwarranted additional incentives for any deviation from the forecast use per customer, including weather. For example, if the price of natural gas increases or the economy slows down and causes consumption to decrease, the Company is provided additional revenue. If the weather is warmer-than-normal and causes consumption to decrease, CenterPoint is provided additional revenue. Both of the above examples illustrate the potential difficulty in providing a common-sense explanation for the proposal to residential and small business consumers. In this situation, the winter warm weather means utility customers have to pay more than they would have

[39] See CenterPoint's response to OAG 804 part 4, which included as Schedule VCC-15.

otherwise paid if decoupling was not in place. Thus, CenterPoint's reduction in financial risk and increased revenue stability[40] due to its decoupling program comes exclusively from the residential and small business ratepayers while other customer classes contribute to the fluctuation of the Company's revenue recovery.

Q. IS THERE THE POTENTIAL THAT THE PROPOSED RD RIDER'S SHIFT IN RISK TO THE CAPTIVE RATEPAYER MAY PRODUCE UNINTENDED AND UNDESIRABLE CONSEQUENCES?

A. Yes. By shifting risk to captive ratepayers, CenterPoint may produce unintended and undesirable consequences and possible environmental benefits of natural gas use. For example, the Company would have little incentive to control costs between rate cases, particularly during challenging events. In contrast, ratepayers have no ability in the short-term to implement cost-saving measures when their rates increase due to events outside their control (weather, economy, price, forecasting error, etc.). Also, under full decoupling, CenterPoint may have less incentive to expand its sales to new, captive customers, and therefore, hinder economic development. Finally, as discussed below, CenterPoint proposed mechanism distorts the price signal sent to consumers and could possibly discourage ratepayers to conserve.

Q. HAVE ANY STUDIES OF REVENUE DECOUPLING ANALYZED HOW PRICE RISK SHIFTS AS A RESULT OF REVENUE DECOUPLING?

A. In one of the only third-party decoupling evaluations, Christensen Associates Energy Consulting, LLC provided a report entitled "A Review of Distribution

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[40] See Financial Reports from the 2012 CE Rider Evaluation, Exhibit K1.b, which is included as Schedule VCC-16.

Margin Normalization as Approved by the Oregon Public Utility Commission for Northwest Natural," which addressed risk shifting. On page 4 of the report, it states:

> Changes in natural gas prices affect the amount of natural gas that customers will use. Therefore, the risk that NW Natural faces with respect to gas price uncertainty is that when prices rise, customer usage levels decrease, reducing fixed cost recovery. At the same time, the price increase causes customers' bills to increase (as long as any reductions in usage are not offset by the increase in the gas price). Because both NW Natural and its customers are made worse off by increases in natural gas prices, the fact that DMN reduces this risk for NW Natural means that the risk is shifted to customers.
> http://www.raponline.org/Pubs/General/OregonPaper.pdf.)

Q. DOES CENTERPOINT'S RD RIDER SEND THE CORRECT PRICE SIGNAL TO FIRM CUSTOMERS?

A. No. The application of the CenterPoint's proposed decoupling distorts the price signal to ratepayers. If, in the first year of the program, the weather is warmer than normal, the Company under-collects its allowed revenues, which, in turn, leads to a surcharge being assessed in the second year. If in the second year, the weather is colder than normal, ratepayers would have a higher non-gas margin due to the assessment of the surcharge in addition to the higher cost for natural gas use consumed during colder-than-normal weather. Although there are variations of weather events which may at times reduce the assessed rates to customers, the lag in the under- or over-recovery distorts the actual market conditions and current market prices. CenterPoint's proposed program could also exacerbate the high bills customers pay during colder-than-normal years, when such years follow warmer-than-normal years or years when gas use is lower for any reason (such as an economic downturn). The proposed full decoupling distorts the price signal for conservation and will further confuse ratepayers as to the rate impact of their conservation efforts.

Q. DOES CENTERPOINT'S RD RIDER HAVE THE POTENTIAL TO ALTER CONSUMERS' PERCEPTION OF ENERGY EFFICIENCY?

A. Yes. Ratepayers' perception of energy efficiency may become tainted. Ratepayers are the ultimate decision makers in implementing energy efficiency measures. It is important that these final decision makers maintain a positive mindset in order to actively implement conservation measures. If the decoupling mechanism shifts all risk to ratepayers and the Company is compensated for any decrease in consumption regardless of the reason (not only Company-initiated conservation), ratepayers subjected to the decoupling mechanism could have a change in their "mindset" towards conservation. Ratepayers may perceive that the proposed formula rate serves the Company's interests and that conservation improvements only result in higher rates. This may dampen the incentives that consumers have to conserve energy.

Q. ARE CENTERPOINT'S PROPOSED MARKETING PROGRAMS COORDINATED WITH THE COMPANY'S RD RIDER?

A. No, the goals of CenterPoint's proposed market program and the RD Rider are at odds with one another. In this rate case CenterPoint is requesting $465,885 for marketing programs designed to increase sales of natural gas.[41] CenterPoint attempts to justify these marketing programs by pointing to a variety of economic benefits of increased natural gas usage, as well as perceived environmental

[41] Nesvig Testimony 35-50.

benefits: "since the direct use of natural gas results in significantly less environmental emissions compared to using electricity in a variety of residential and business applications, these programs can produce significant environmental benefits for our customers and society as a whole."[42] Thus, CenterPoint's marketing programs are intended to increase natural gas use, which CenterPoint claims will offset other, more carbon-intensive fuels, while the RD rider is intended to decrease natural gas use. If the Commission approves the RD rider, CenterPoint will no longer have the incentive to promote natural gas consumption through its marketing programs. Accordingly, the Commission should deny CenterPoint's requested $465,885 for marketing programs if it approves CenterPoint's full decoupling proposal.

Q. WHAT IS THE EFFECT OF THE RD RIDER ON THE COMPANY'S REVENUE STREAM?

A. Full decoupling provides the Company a predictable revenue stream, independent of *all* uncertainties (weather, economy, price, forecasting error, etc.) of the actual sales from consumers subject to the program. Instead of providing the Company with the *opportunity* to earn its authorized rate-of-return, as is premise of traditional ratemaking, CenterPoint's proposal *guarantees* that the Company will earn its authorized rate of return from those customer classes subjected to full decoupling. The Company's proposal also eliminates any under-collection of sales revenue, reduces the earning volatility and lessens its overall financial risk. While CenterPoint clearly benefits from full decoupling, the benefits to those

[42] Nesvig Testimony at 35-36.

subjected to full decoupling are questionable. I note that the Company has not identified any benefits for the specific customer classes that are to be subjected to full decoupling under its proposal.

Q. WHAT ARE THE ADVERSE IMPLICATIONS OF ALLOWING CENTERPOINT TO IMPLEMENT FULL DECOUPLING AS A PERMANENT PROGRAM?

A. CenterPoint proposes a full decoupling mechanism that is still in a "pilot" status, has not yet been evaluated, and may have unknown risks and consequences to Minnesota ratepayers. Additionally, Xcel Electric proposes a "partial" decoupling (absent weather normalization) in its upcoming rate case, Docket No. E002/GR-13-1868. It would be understandable and reasonable for the Commission to deny CenterPoint's full decoupling proposal until there is a full evaluation of MERC's three-year full decoupling pilot. Moreover, the Commission can reduce future regulatory complexity and confusion (to utilities, regulators and consumers) by providing guidance regarding decoupling programs that best serve Minnesota consumers.

Q. WHAT IS YOUR RECOMMENDATION REGARDING CENTERPOINT'S RD RIDER PROPOSAL?

A. Given the inequity of application, the OAG cannot state that the proposed decoupling mechanism is in the public interest or that it is fair to the Residential and Small Commercial & Industrial customers classes. CenterPoint has not shown that the proposed decoupling proposal would have no adverse impact on its customers, which is required by Minnesota law. The Company has not shown that its proposed decoupling mechanism would be the right decoupling mechanism for its customers, the best way to promote additional, incremental energy efficiency, or an innovative decoupling mechanism with the equal application of the full decoupling mechanism to all customer classes. There is no reason to dismiss traditional regulation for an alternative regulation with a mechanism that is the same as MERC's pilot, has not been fully evaluated, shifts risk to ratepayers without identifiable offsetting benefits and unfairly holds captive ratepayers solely responsible for stabilizing the Company's revenue. As such, the proposed decoupling mechanism does not appear to be in the public interest. Thus, the OAG does not support the proposed RD Rider as filed and recommends denial.

E. OAG PROPOSALS IF THE COMMISSION MOVES FORWARD WITH CENTERPOINT'S RD RIDER

Q. BEFORE CONTINUING WITH THIS SECTION, DO YOU HAVE ANY QUALIFYING REMARKS?

A. Yes. I continue to recommend that the Commission deny CenterPoint's full decoupling proposal as filed. However, if the Commission continues with the proposed program, I recommend that:

- The proposed RD Rider be considered a pilot decoupling mechanism;
- The proposed RD Rider be applied to all customer classes;
- A specific 22.1 basis point reduction of ROE from what would otherwise be determined to recognize the shift in risk from the Company to firm ratepayers;

- Deny CenterPoint's RD Rider design to calculate the allowed non-gas revenue using either the rate case's number of customers or the actual number of customers during the evaluation period;
- Deny CenterPoint's proposal to change the adjustment cap from 3 to 5 percent;
- Deny $465,885 of recovery for marketing programs designed to increase natural gas usage; and
- Deny CenterPoint's proposal to project revenue sales on a 10-year weather-normalize basis.

Q. PLEASE EXPLAIN WHY CENTERPOINT'S RD RIDER SHOULD BE CONSIDERED A PILOT PROGRAM.

A. CenterPoint requests that no set time limit be placed on its RD Rider. As discussed above, CenterPoint recently abandoned its "partial" decoupling pilot and now wants Commission approval to implement a permanent program, similar to (if not exactly like) MERC's three-year, "full" decoupling pilot approved by the Commission in Docket No. G007,011/GR-10-977.[43] MERC's pilot is in-progress and the results of the pilot are yet unknown. It is premature to approve CenterPoint's proposed RD Rider as a permanent program at this time.

[43] CenterPoint's proposed full decoupling calculations are based on a comparison of actual usage compared to weather-normalized test-year sales volumes rather than comparing weather-normalized annual usage to weather-normalized test-year sales volumes (as was the calculation with its partial decoupling pilot program).

Q. PLEASE EXPLAIN THE BASIS FOR THE APPLICATION OF THE RD RIDER TO ALL CUSTOMER CLASSES.

A. As proposed, CenterPoint is holding firm (i.e., Residential, Commercial-A, C&I-B, C&I-C and Small Volume Firm Transportation rate classes) customers solely responsible for stabilizing the Company's revenue recovery. If the Commission considers accepting CenterPoint's argument that there is a need to stabilize the Company's revenue recovery with additional annual rate adjustments, other customer classes contribute to the fluctuation of the Company's revenue recovery and should also be responsible for sharing the costs of stabilizing the Company's rate of return.

More importantly, if the purpose of the Company's decoupling is to promote conservation, it is reasonable to remove any disincentive for *every* customer class. It is thereby reasonable that *all* customer classes subject to CIP would contribute to such potential earnings degradation. As proposed, the RD Rider does not sever the throughput incentive for its largest customers. The Company has seen an increase in usage of approximately 26 percent for non-decoupling consumers since 2008. CenterPoint continues to have a strong profit motive to ignore conservation and encourage non-decoupling customers to increase usage. Given the inequity of application, the OAG believes that it is fair and reasonable to apply the proposed RDM to all customer classes.

Q. WHAT IS THE BASIS FOR YOUR PROPOSED REDUCTION IN THE COMMISSION'S APPROVED RATE OF RETURN?

A. As discussed on page 15 of the RAP report, risk mitigation can be reflected in two ways. One of the two approaches to reflect the risk mitigation afforded by implementation of decoupling is to simply reduce the utility's allowed return on equity, discounted by some number of basis points from what would have otherwise been approved. According to the RAP report, this has been done in several jurisdictions.

Q. HAVE YOU IDENTIFIED STATES WHERE THE REGULATORY AUTHORITIES HAVE REDUCED THE UTILITY'S ALLOWED RETURN ON EQUITY BY DISCOUNTING SOME NUMBER OF BASIS POINTS FROM WHAT WOULD HAVE OTHERWISE BEEN APPROVED?

A. Yes. Table 8, below, identifies the state jurisdictions where ROE reductions were made.

Table 8

Summary of Regulatory Orders Addressing Decoupling

	State	Utility	Reduction in Basis Points	Docket	Date of Final Order	Litigated or Settled
1	AR	Arkansas Oklahoma	10	07-026-U	11/20/2007	Settled
2	AR	Arkansas Western	25	06-124-U	7/13/2007	Settled
3	AR	Centerpoint Energy Arkansas	10	06-161-U	10/25/2007	Settled
	DC	Delmarva Power & Light	50	Order 15710	3/2/2010	Litigated
4	IL	North Shore Gas - Integrys	10	D-07-0241	2/5/2008	Litigated
5	IL	Peoples Gas - Intergrys	10	D-07-0242	2/5/2008	Litigated
6	IL	NICOR Gas	6.5	08-0363	3/25/2009	Litigated
	MD	PEPCO	50	Order 83985	12/30/2009	Litigated
7	MO	Missouri Gas Energy	32.5	GR-2006-0422	3/22/2007	Litigated
8	NY	National Fuel Gas Dist.	10	07-G-0141	12/21/2007	Litigated
	NV	Southwest Natural Gas	25	09-04003	11/3/2009	Litigated
9	OH	Vectren Ohio	25	07-1080-GA-AIR	1/7/2009	Settled
10	OH	Columbia Gas of Ohio	25	08-0072-GA-AIR	12/3/2008	Settled
11	OH	Dominion East Ohio _/1 _/2	20	07-829-GA-AIR	12/19/2008	Settled
		Average Reduction in Basis Points =	22.1			

[1] The stipulated ROE was reduced due to the implementation of a decoupling mechanism but the adjustment was not specified.
[2] The overall Rate of Return was reduced by 20 basis points primarily to accommodate a number of factors including deteriorating economic

Q. DO YOU HAVE ANY OBSERVATIONS REGARDING TABLE 8 ABOVE?

A. Yes. The above table confirms the RAP report that ROE reductions have been made in several jurisdictions. The ROE reductions range from 6.5 to 50 basis points with an average ROE reduction of 22.1 basis points. The Commission should recognize the risk mitigation of approving the implementation of full revenue decoupling. While I continue to recommend that CenterPoint's RD Rider proposal be denied, if the Commission continues with the proposal, I recommend the average 22.1 point reduction presented above in Table 8 from what would have otherwise been determined for the duration of the pilot program.

Q. WHY DO YOU RECOMMEND THAT CENTERPOINT NOT BE ALLOWED TO CALCULATE THE ALLOWED NON-GAS REVENUE USING EITHER THE RATE CASE CUSTOMER COUNTS OR THE EVALUATION-PERIOD ACTUAL CUSTOMER COUNT IN THE EVALUATION PERIOD?

A. As mentioned above, CenterPoint Witness Gastineau identified that one of the four flaws of CenterPoint's partial decoupling pilot was the use of actual customers in calculating the allowed non-gas revenue.[44] CenterPoint claims that if the actual number of customers ("customer count") declines, the allowed non-gas revenue decreases below the level of authorized rate case revenues, even though there is not a corresponding decrease in the Company's cost.[45] In order to fix this supposed flaw, CenterPoint proposes that it be allowed to choose between using the rate case customer count or the actual customer count in any given year to calculate the allowed non-gas revenues. CenterPoint's proposal would allow

[44] Gastineau Direct at 7.

for a surcharge to customers if the customer count is lower than the test-year forecast.[46] If CenterPoint is allowed to choose between the test-year and actual customer counts, the Company will always be able to choose the customer count that is to its advantage. It is not reasonable to allow the Company to choose whichever customer counts that maximizes its revenue. CenterPoint has not shown its proposal to be fair.

Q. WHY DO YOU RECOMMEND DENIAL OF CENTERPOINT'S PROPOSAL TO INCREASE THE ADJUSTMENT CAP FROM 3 TO 5 PERCENT?

A. CenterPoint has not shown that captive ratepayers subjected to revenue decoupling benefit from increasing the adjustment cap from 3 to 5 percent. The three percent adjustment cap limits the amount the Company can recover if the proposed mechanism under-charges the firm ratepayer. An increased adjustment cap expands the amount CenterPoint can recover if the proposed mechanism under-charges the firm ratepayer. A tighter limit is in the public interest.

Q. WHY DO YOU RECOMMEND DENIAL OF RECOVERY FOR MARKETING PROGRAMS DESIGNED TO INCREASE NATURAL GAS USAGE?

A. As discussed above, the goals of CenterPoint's proposed market program and the RD Rider are at odds with one another. Decoupling is designed to limit the utility's incentive to increase sales. Marketing programs, on the other hand, are designed to increase utility's sales. If the Commission approves CenterPoint's

(Footnote Continued From Previous Page)
[45] Gastineau Direct at 7.
[46] Gastineau, Supplemental Direct at 7.

decoupling proposal, I recommend denial of $465,885 of recovery for marketing programs designed to increase natural gas usage.

Q. WHAT IS CENTERPOINT'S PROPOSAL REGARDING THE USE OF A 10-YEAR PERIOD FOR PROJECTING SALES' REVENUE AND SERVICE AS THE BASIS FOR THE WNA COMPONENT OF THE RD RIDER?

A. CenterPoint proposes to change the data used to project sales and establish its RD Rider base from 10-years rather that the Commission approved 20-year period.

Q. HAS CENTERPOINT PREVIOUSLY REQUESTED A CHANGE IN THE TIME PERIOD USED TO ESTABLISH NORMAL WEATHER?

A. Yes. CenterPoint raised the same issues in the Company's 2008 rate case in Docket No. G008/GR-08-1075 ("08-1075") and its request was denied. In its 08-1075 Order, the Commission concluded:

> …The record does not demonstrate that climate change has at this point rendered a 20-year weather normalization period less fair and reasonable than a ten-year normalization period; the Commission will therefor require the use of a 20-year period as recommended by the OES.[47]

Q. DO YOU HAVE CONCERNS WITH THE COMPANY'S PROPOSAL TO USE A 10-YEAR PERIOD?

A. Yes. I have three general concerns:

1. The use 10-year period of data is statistically less stable than a 20-year period;
2. The majority of states with WNAs use 30-year periods of data to calculate the adjustments;

[47] 08-1075 Order dated at 51.

3. The change to a 10-year period challenges the Commission policy of using 20-year data periods to project sales' revenue for all regulated natural gas and electric utilities in Minnesota.

Q. PLEASE EXPLAIN YOUR CONCERN WITH THE STATISTICAL STABILITY OF A SHORT TIME PERIOD TO PROJECT SALES' REVENUE AND THE BASIS FOR THE WNA COMPONENT IN THE COMPANY'S RD RIDER?

A. I share the same concern expressed by CenterPoint in its 1995 rate case. In testimony, CenterPoint Witness Adam Pyles states that the forecast models of the Minnesota Department of Commerce ("DOC"):

> …use an unreasonably short time period with far too few data observations to be a reliable forecasting tool and this results in models with unstable output…[48]

The use of a short time period allows for one or two data outliers to induce volatility in the model and alter the forecasting results. A longer time period appropriately incorporates outliers in the forecasting calculation and produces more stable results. My concern with using a 10-year period in this proceeding is heightened due to the fact that CenterPoint confirms that three of the last five heating seasons have been relatively cold and that 2012 was the warmest heating season in recent times.[49] The occurrence of four "abnormal weather" events in the last five years stands to challenge the use of a 10-year period to project sales' revenue or establishing a base for the WNA mechanism.

[48] Pyles Rebuttal Testimony in Docket No. G008/GR-95-700 at 27.
[49] See CenterPoint's response to OAG IR 803R, which is included as Schedule VCC-17.

Q. WHAT TIME PERIOD DO OTHER STATE JURISDICTIONS USE IN THEIR WNA MECHANISMS?

A. According to CenterPoint, the information is not available.[50] Therefore, I performed an informal telephone survey of the states identified by the American Gas Association ("AGA") that have weather-normalization mechanism.[51] Using National Association of Regulatory Utility Commissioners' ("NARUC") website, I identified the name and phone number of NARUC members. I contacted 30 state jurisdictions and received responses for 25 states with WNA. My informal survey identifies that in establishing the WNA amount:

- 13 of the 25 states contacted (approximately 52 percent) reported using a 30-year period;
- 3 of the 25 states contacted reported using a 20-year periods;
- 1 of the 25 states contacted reported use of a 15-year period; and
- 3 of the 25 states contacted reported using 10-year weather data; and
- 5 of the 25 states contacted reported using various other time periods of weather data.[52]

Thus, while the results are from an informal survey, it appears that CenterPoint wants Minnesota to go forward with a 10-year period for its WNA methodology that has not gained general acceptance. Given the continued acceptance of a 30-year period, the Commission should be reluctant to embrace the Company's unusual and rarely accepted 10-year period.

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[50] See CenterPoint's response to OAG IR 806, which is included as Schedule VCC-18.
[51] See AGA map of WNA states, which is included as Schedule VCC-19

Q. PLEASE EXPLAIN YOUR CONCERN REGARDING THE IMPACT OF APPROVING A 10-YEAR PERIOD TO PROJECT SALES' REVENUE.

A. The approval of a 10-year period in this case represents a major policy change for the Commission. It sends a message that the Commission is establishing a new, different base period to forecast sales' revenue for all regulated natural gas and electric utilities. Since it has not been shown that a 10-year period is the most appropriate basis for projecting sales' revenue for CenterPoint in Minnesota, it cannot and should not be assumed that a 10-year period is appropriate for other utilities.

Q. **WHAT DO YOU RECOMMEND?**

A. I recommend that the Commission continue its use of data from a 20-year period. Also, in the 08-1075 docket, the Minnesota Department of Commerce ("DOC") recommended:

> Given the possible benefit to all regulated utilities, it may be appropriate for the Commission, if it so chooses, to commence another proceeding where other regulated utilities may weigh in on the possible merits of 10-year weather. The Commission could also use such a proceeding to retain an outside, unbiased, expert in the climatology field to fully vet the use of 10-1 year normal weather and make recommendations as to whether it is appropriate for use in a regulatory proceeding.[53]

The Commission did not open an industry-wide investigation in the 08-1075 docket. Given that the decision in this proceeding will be widely viewed for a change in policy, I recommend that the Commission commence another

(Footnote Continued From Previous Page)
[52] A listing of the state jurisdiction contact and the individual reported time periods used in the WNA mechanism is included as Schedule VCC-20.
[53] Heinen Surrebuttal at 21 - 22.

proceeding where other regulated utilities may weigh in on the possible merits of 5-year, 10-year, 20-year and 30-year weather.

V. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS WITH RESPECT TO REVENUE APPORTIONMENT AMONG CLASSES?

A. Based solely on the results from its Class Cost of Service Study ("CCOSS"), CenterPoint proposes to increase rates to only the residential and small firm customers, while proposing no increase in non-gas revenue recovery to Large C&I-C and interruptible customers, other than the increase related to the Conservation Improvement Program ("CIP") costs. CCOSS results should not be the sole determinant in design rates. CCOSS models involve the application of judgment and contain numerous assumptions. When one assumption changes, the results of the model also change. For example, depending on the allocation of distributions costs, the Residential class is allocated between 88.23 percent to 99.35 percent of costs. CCOSS results are unstable and imprecise.

Additionally, CCOSSs alone do not recognize critical non-cost facts. In basing the revenue apportionment on CCOSS results, the Company fails to incorporate critical factors such as the ability to pay, value-of-service to interruptible customers, and the fact that all customers benefit from safety and integrity improvements and increased conservation efforts that led to the need for the rate increase in this rate case.

I recommend that the Commission accept my proposed revenue apportionment as identified in Table 3 above. Additionally, while I oppose

CenterPoint's proposed rate increase, I recommend that any Commission-approved revenue increase be shared equally among all customer classes. My testimony shows that an across-the-board design is both fair and reasonable.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS FOR CUSTOMER CHARGES FOR RESIDENTIAL AND SMALL C&I CLASSES?

A. CenterPoint proposes to increase the Residential customer charge from $8.00 per month to $15.00 a month, which constitutes an 87.50 percent increase in the monthly charge. In proposing the increase to $15.00 per month, CenterPoint is proposing a Residential customer charge that is not consistent with any customer charge in Minnesota. The proposed customer charge is almost double the simple average of Commission-approved customer charges for regulated natural gas companies in Minnesota. Moreover, the Commission has never granted an increase of 87.50 percent to residential customers. The proposed increase constitutes rate shock.

CenterPoint has not shown that its rate design promotes more energy efficient use of natural gas or moves Residential and Small C&I classes closer to cost. The high customer charges and relatively low energy charges proposed by the Company reduce the incentive for consumers to conserve by reducing the payback on investments in efficient appliances. They also reduce the ability of consumers to control their own bill through their own consumption decisions. On the other hand, lower customer charges and relatively higher energy charges make consumers' bill more sensitive to consumption. A higher energy charge also increases the potential savings that can be achieved through conservation. It is important that consumers have the ability to control their bill by consuming less.

I recommend that the Commission maintain the current customer charge and not increase Residential and Small C&I classes as proposed by CenterPoint. If the Commission approves CenterPoint's full revenue decoupling mechanism, I recommend that the residential customer charge should be reduced to $5.00 per month, since under full decoupling, CenterPoint is guaranteed revenue recovery for the Residential class. My recommendation allows CenterPoint a reasonable opportunity to meet its revenue requirement -- it simply allow CenterPoint to recover more of their revenue requirement through the energy charge. My recommendation promotes customer acceptance by maintaining historical continuity, providing customers greater control over their monthly bills and avoids rate shock. It also provides greater incentive for customers to conserve energy. My recommendation properly balances the many rate design objectives the Commission must consider in setting rates and is both fair and reasonable.

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS REGARDING CENTERPOINT'S RD RIDER PROPOSAL?

A. CenterPoint's proposed RD Rider fully decouples its non-gas revenues from its sales for all firm, captive classes. CenterPoint's proposal has numerous adverse factual and policy implications, including risk shift, potential unintended and undesirable impacts, price signal distortion, and a possible change in the consumer's perception of energy efficiency.

As proposed, the RD Rider provides the Company with a predictable revenue stream, independent of *all* uncertainties (weather, economy, price, forecasting error, etc.) of the actual sales from consumers subject to the program. Instead of providing the Company with the *opportunity* to earn its authorized rate-of-return, as is the premise of traditional ratemaking, CenterPoint's proposal *guarantees* that the Company will earn its authorized rate of return from those customer classes subjected to full decoupling. The Company's proposal also eliminates any under-collection of sales revenue, reduces the earning volatility and lessens its overall financial risk. Firm captive customers subject to the RD rider are held responsible to guarantee the Company's financial stability.

Given the inequity of application, I cannot state that the proposed decoupling mechanism is in the public interest or that it is fair to the Residential and Small C&I classes. CenterPoint has not shown that the proposed decoupling proposal would have "no adverse impact on its customers," which is required by Minnesota law. The Company has not shown that its proposed decoupling mechanism would be the right decoupling mechanism for its customers, the best way to promote additional, incremental energy efficiency, or an innovative decoupling mechanism with the equal application of the full decoupling mechanism to all customer classes. There is no reason to dismiss traditional regulation for an alternative regulation with a mechanism that is the same as MERC's pilot, has not been fully evaluated, shifts risk to some ratepayers without identifiable offsetting benefits and unfairly holds captive ratepayers solely responsible for stabilizing the Company's revenue. As such, the proposed decoupling mechanism does not appear to be in the public interest. Thus, I do not support the proposed RD Rider as filed and recommend denial.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS IF THE COMMISSION MOVES FORWARD WITH CENTERPOINT'S RD RIDER?

A. I continue to recommend that the Commission deny CenterPoint's full decoupling proposal as filed. However, if the Commission continues with the proposed program, I recommend that:

- The proposed RD Rider be consider a pilot decoupling mechanism;
- The proposed RD Rider be applied to all customer classes;
- A specific 22.1 basis point reduction of ROE from what would otherwise be determined to recognize the shift in risk from the Company to firm ratepayers;
- Deny CenterPoint's RD Rider design to calculate the allowed non-gas revenue using either the rate case's number of customers or the actual number of customers during the evaluation period;
- Deny CenterPoint's proposal to change the adjustment cap from 3 to 5 percent;
- Deny recovery of $465,885 for CenterPoint's marketing programs designed to increase natural gas usage; and
- Deny CenterPoint's proposal to project revenue sales on a 10-year weather-normalized basis.

I also recommend, that the Commission continue its use of data from a 20-year period and that it commence another proceeding where other regulated utilities may weigh in on the possible merits of use of 5-year, 10-year, 20-year and 30-year weather data.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.