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September 16, 2011

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**VIA E-FILING AND U.S. MAIL**

Dr. Burl W. Haar  
Executive Secretary  
Minnesota Public Utilities Commission  
121 East Seventh Place, Suite 350  
St. Paul, MN 55101

RE: In the Matter of the Application by CenterPoint Energy for Authority to Increase Natural Gas Rates in Minnesota  
MPUC Docket No. G-008/GR-08-1075

Dear Dr. Haar:

Enclosed please find the Joint Proposal to Suspend Application of the Inverted Block Gas Cost Recovery Structure and to Convene Work Group in the above-referenced docket. The document has been filed with the E-Docket system and served on the attached service list. Also enclosed is our Affidavit of Service.

Very truly yours,

WINTHROP & WEINSTINE, P.A.

/s/ Eric F. Swanson

Eric F. Swanson

Enclosures

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**BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION**

121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101-2147

Ellen Anderson	Chair
Dr. David C. Boyd	Commissioner
J. Dennis O'Brien	Commissioner
Phyllis Reha	Commissioner
Betsy L. Wergin	Commissioner

In the Matter of the Application by  
CenterPoint Energy For Authority  
to Increase Natural Gas Rates  
in Minnesota

MPUC Docket No. G-008/GR-08-1075

**Joint Proposal To Suspend Application  
of the Inverted Block Gas Cost Recovery Structure  
and to Convene Work Group**

CenterPoint Energy (“CenterPoint” or “Company”), the Energy CENTS Coalition (“ECC”), Minnesota Center for Environmental Advocacy (“MCEA”), and the Izaak Walton League of America (“IWLA”) (collectively, “Parties”) file this Joint Proposal To Suspend Application of the Inverted Block Gas Cost Recovery Structure and to Convene Work Group (“Joint Proposal”), concerning the inverted block gas cost (“IBGC”) recovery structure approved by the Minnesota Public Utilities Commission (“Commission”) in the above-captioned docket, CenterPoint Energy’s 2008 general rate case.

**Background**

During the Company’s 2008 rate case, the Parties brought forward the IBGC recovery structure with a two-pronged goal: (1) to encourage customers to conserve, by sending price signals to high use customers; and (2) to provide a discount to low use

customers.<sup>1</sup> The Office of the Attorney General (“OAG”) also supported the IBGC, stating in its testimony that the IBGC “provides direct ratepayer incentives for reducing natural gas consumption. It has the dual effect of promoting conservation and helping low volume users who are often low income customers.”<sup>2</sup>

The Commission approved the IBGC structure, finding in its January 11, 2010 Findings of Fact, Conclusions of Law and Order (“Order”) that, under this cost recovery structure, “the lowest usage customers receive a discount on the commodity rate. In contrast, higher usage customers would see the largest rate increases and, thus, have an incentive to lower their usage.” Order, p. 9. The Commission further stated that, by sending such price signals, the IBGC structure “is designed to actually achieve the statutory goal of energy savings.” Order, p. 16. Therefore, the Commission determined as a matter of policy to approve the IBGC structure on a pilot basis, to be evaluated on an annual basis over the course of the pilot.

### **Concerns Raised**

Not surprisingly, the IBGC recovery structure has prompted customer feedback and, in some cases, opposition. In particular, some high use customers have vigorously objected to paying more per unit of gas as their consumption increases.<sup>3</sup> Of course, the Commission approved the IBGC, in part, to send a price signal to exactly such customers. In that light, if there were no customer reaction to the IBGC rate structure, the price signal would have been ineffectual.

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<sup>1</sup> See CPE Ex. 140, p. 1 from the contested case hearing record.

<sup>2</sup> OAG Ex. 509, p. 45. (Lindell Rebuttal Testimony).

<sup>3</sup> It is important to note, though, that the majority of customers receive lower overall gas bills under the IBGC than they would under a traditional flat gas cost recovery mechanism.

However, the Parties recognize that, in addition to hearing concerns from customers who use large amounts of natural gas (whether due to the size of their homes or other factors), the Commission has heard concerns from others, who believe the IBGC is unfairly impacting certain customers. For example, concerns have been raised regarding customers with medical conditions that require keeping their thermostats turned high, customers in single metered, multi-unit buildings, low income but high use customers, customers with bills reflecting longer billing periods and customers who have already made significant conservation investments.

These concerns have led the OAG and Community Action of Minneapolis (“CAM”) to recommend that the IBGC structure be suspended, pending further review and potential modification. Similarly, the Suburban Rate Authority (“SRA”) suggests that the IBGC “needs close review and probable adjustment,” before moving forward. Further, the Department of Commerce (“Department”) has recommended that the Commission either revise or suspend the IBGC structure.

### **Parties’ Responses**

The Parties, in comments filed June 6 (IWLA), June 21 and July 22 (CenterPoint), and June 21 and August 12 (ECC) have recognized the concerns raised by others. IWLA specifically noted that it looked forward to “working with the Company, the Commission and other interested parties in exploring solutions” to these concerns. ECC did oppose suspension of the IBGC structure, given the fact that the majority of residential customers (and the majority of low income customers) receive lower bills under the IBGC structure when compared to traditional gas cost recovery. However, ECC supported a stakeholder

process to explore potential modifications to the structure going forward. Finally, given the complexity of the issues involved and the need to make any modifications manageable, workable and free from unintended consequences, the Company recommended that, if the Commission wishes to explore modifications to the structure at this stage of the pilot, it require a stakeholder process to fully vet such modifications and report back to the Commission.

### **Proposal**

The Parties continue to believe that the policy underpinnings relied on by the Commission in approving the IBGC structure on a pilot basis are sound. The Commission made a reasonable judgment in determining that this structure has the potential to encourage conservation by high use customers and the structure undeniably offers a financial benefit to low use customers, many of whom are also low income customers.

At the same time, the Parties recognize that the purpose of a pilot is to learn and adjust as necessary. For that reason, the Parties have explored and discussed potential modifications to the program, as suggested by customers, the Department, the OAG and others. However, as the Company discussed in its July 22 filing, any such modifications will require significant effort to ensure that they are workable, free from unintended consequences, and implemented appropriately.<sup>4</sup>

To ensure that such a thorough and thoughtful discussion can take place, and recognizing that such efforts may take considerable time, the Parties jointly propose that

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<sup>4</sup> For example, any discussion centered on whether customers who have already invested in conservation should be exempted from the IBGC structure, must necessarily include a discussion of the level of conservation investment that would merit such an exemption, how such investment would be verified, and how such customers would apply for an exemption.

the Commission order suspension of the IBGC structure, effective two weeks after the Commission Order suspending the structure. Further, the Parties recommend that the Commission convene a work group comprised of all commenting parties in this docket to explore potential modifications.

A suspension of the structure would mean customer bills would change and reflect flat gas cost recovery from all customers (for residential customers, equivalent to the current Tier 2 rate under the IBGC structure) for remainder of the 2011-12 gas year (ending June 30, 2012) – raising winter bills for the lowest use customers when compared to the IBGC structure and reducing bills for the highest use customers. The Parties further propose the Working Group report back to the Commission regarding any suggested modifications to the implementation of the IBGC structure, or any “exemptions” from it, together simultaneously with the Company’s next evaluation report on March 1, 2012.<sup>5</sup> Such a process would allow for a full analysis of potential modifications and exemptions, while in the interim charging customers for gas costs consistent with Company and Commission practices prior to the approval of the IBGC structure.

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<sup>5</sup> The Parties would note that the IBGC reconciliation adjustment line item ordered by the Commission and currently appearing on customer bills would remain in place.

The Parties have briefly discussed this proposal with the Department, OAG, SRA and CAM and look forward to further discussing this proposal with the Commission and others.

On behalf of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas

Dated: 9/16/2011

By: /s/ Eric F. Swanson  
Eric F. Swanson  
Winthrop & Weinstine, P.A.  
Attorneys for CenterPoint Energy

On behalf of Energy CENTS Coalition

Dated: 9/16/11

By: *Pam Marshall*

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Pam Marshall  
Executive Director  
Energy CENTS Coalition

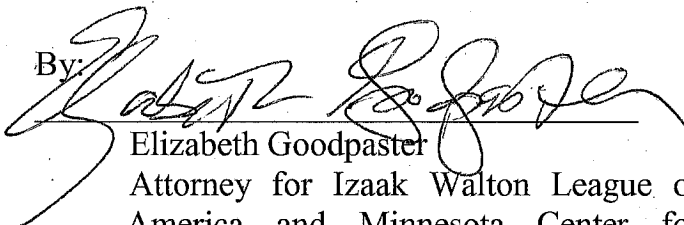


On behalf of the Izaak Walton League of  
America and Minnesota Center for  
Environmental Advocacy

Dated: \_\_\_\_\_

9/16/11

By: \_\_\_\_\_



Elizabeth Goodpaster

Attorney for Izaak Walton League of  
America and Minnesota Center for  
Environmental Advocacy

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION  
121 Seventh Place East, Suite 350  
St. Paul, Minnesota 55101-2147

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

MPUC Docket No. G-008/GR-08-1075

STATE OF MINNESOTA    )  
  ) ss.  
COUNTY OF HENNEPIN    )

Mary G. Holly, of the City of Lake Elmo, County of Washington, the State of Minnesota, being first duly sworn, deposes and says that on the 16<sup>th</sup> day of September, 2011, she served the attached **Joint Proposal to Suspend Application of the Inverted Block Gas Cost Recovery Structure and to Convene Work Group** to all said persons on the attached Service List, true and correct copies thereof, by e-filing and/or by depositing the same enclosed in an envelope, postage prepaid in the United States Mail in the post office at Minneapolis, Minnesota.

/s/ Mary G. Holly  
MARY G. HOLLY

Subscribed and sworn to before me this  
16<sup>th</sup> day of September, 2011.

/s/ Jane E. Justice  
Notary Public

My Commission Expires: January 31, 2015

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