

April 16, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G008/AI-15-50

Dear Mr. Wolf:

Attached are the *Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A Request by CenterPoint Energy Minnesota Gas (CenterPoint Energy) for Approval of a Modified Master Services Agreement Between CenterPoint Energy and CenterPoint Energy Service Company.

The petition was filed on January 14, 2015 by:

Peggy Sorum
Manager, Regulatory Financial Activities
CenterPoint Energy Minnesota Gas
800 LaSalle Ave., P.O. Box 59038
Minneapolis, MN 55459-0038

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve with reporting requirements** CenterPoint Energy's proposed modified Master Services Agreement.

The Department is available to answer any questions the Commission may have on this matter.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst

MS/lt
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. G008/ AI-15-50

I. SUMMARY OF PROPOSAL

On January 14, 2015, CenterPoint Energy Minnesota Gas, a Division of CenterPoint Energy Resources Corp. (CenterPoint Energy or the Company) submitted a petition to the Minnesota Public Utilities Commission (Commission) requesting approval of an affiliated interest agreement to change the scope of the Master Services Agreement (MSA) between CenterPoint Energy¹ and CenterPoint Energy Service Company, a CenterPoint Energy company (ServiceCo).² The Company generally described the nature and terms of the MSA as follows:

The underlying agreement related to this petition is the MSA that is used to provide corporate services and charge corporate costs to CenterPoint Energy companies. The MSA was originally approved by the Commission in 2004 (Docket No. G008/AI-04-376) and covered a variety of services provided to the Company by ServiceCo. Effective December 15, 2014, the MSA will now include within its scope certain Customer Service and related support functions previously performed by the Company.³

On March 24, 2015, CenterPoint Energy filed the revised MSA and on April 2, 2015, the Company filed a corrected MSA as well as a red-line copy.

¹ The MSA is entered into in multiple parts by and between the companies whose names appear on the signature pages. CenterPoint Energy Gas Operations signed the MSA for the Company.

² The petition was submitted pursuant to Minn. Stat. §216B.48, Minn. R. 7825.2200 (B), and *Order Initiating Repeal of Rule, Granting Generic Variance, and Clarifying Internal Operating Procedures* in Docket No. E,G999/CI-98-651 (Docket No. 98-651).

³ Petition, page 4.

According to CenterPoint Energy, the 2015 MSA includes all of the services contemplated in the 2004 docket and also includes certain customer service and related support functions.⁴ The Company explained the reason for the change in scope of the MSA as follows:

In the past, there has been a ServiceCo call center located in Houston, Texas and a Company call center located in Minneapolis. Until the change in scope of the MSA that has prompted this Petition, the ServiceCo call center provided the front-line communication exclusively with Houston Electric customers and for Arkansas, Louisiana, Mississippi, Oklahoma and Texas CenterPoint Energy gas customers. The Company's call center provided the front-line communication with Minnesota customers.

Going forward, there will continue to be a call center both in Minnesota and in Houston staffed by CenterPoint Energy customer service representatives (CSRs). However, the two will operate as a unified call center within ServiceCo, meaning staff in both Minnesota and Houston may service customers across CenterPoint Energy's various jurisdictions. The development of such a unified call center is designed to capture efficiencies made available by recent investments in new technologies. The unified call center will continue to be responsible for the front-line communications with customers; the primary means of communication with most customers is by telephone which includes interaction with a CSR and/or an Interactive Voice Response (IVR) unit. Web-based and IVR applications are also utilized to allow customers 24 hour electronic access to specific information and transactions. The unified call center in ServiceCo will also continue to record credit and collection related calls and use the approved "Cold Weather Rule" script; additionally, there will be no change to the information that is included in annual Service Quality Reports.⁵

In addition to the call center functionality, related support functions will also be provided by ServiceCo including:

- Customer Care Training and Quality Assurance teams – including Call Center training and monitoring and evaluating customer calls;
- Customer Account Support and Work Force Management teams – optimizing the productivity and staffing of the Call Center;
- Credit and Collections – managing CenterPoint Energy's debt collection and write-offs; and

⁴ Petition, page 6.

⁵ Petition, pages 6-7.

- Related management areas – oversight and supervision including common processes and strategic direction.⁶

II. DEPARTMENT ANALYSIS

A. STATUTORY REQUIREMENTS

Minn. Stat. §216B.48 provides two tests (the reasonableness and public-interest tests) for the Commission to apply to affiliated interest contracts:

The commission shall approve the contact or arrangement... only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest... The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Therefore, CenterPoint Energy has the burden of proof to establish reasonableness of the modified MSA, and the Commission shall approve the modified MSA only if it is reasonable and consistent with the public interest.

B. FILING REQUIREMENTS

Pursuant to Minn. Stat. 216B.48, subd. 3, no contract or arrangement shall be valid or effective for regulatory purposes unless and until approved in writing by the Commission. In its Order in Docket No. 98-651, the Commission provided that, within 30 days of executing a contract or arrangement with an affiliate, a utility must make a miscellaneous filing that satisfies the requirements of Minn. R. 7825.2200, subd. B, by including the following information:

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.
5. A descriptive summary of the pertinent facts and reasons why such contract or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.

⁶ See Petition, page 7, for more detailed explanations.

7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.⁷
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage or demographic information.
10. The filing must be verified.

Additionally, the Commission's July 11, 1996 *Order Approving Affiliated Interest Agreement with Modification and Granting Variance*, Docket No. G008/AI-96-73, requires CenterPoint Energy in future affiliated interest filings to "provide a quantification of cost savings, and other ratepayer benefits if possible, and an explanation of changes being made to the CAM [Cost Allocations Manual], or reason why CAM changes are not necessary."⁸

CenterPoint Energy provided applicable information satisfying all of the requirements except for a copy of the MSA. CenterPoint Energy stated:

The change in scope of the MSA to include certain Customer Service and related support functions will be reflected in the 2015 MSA. The 2015 MSA will be available on or before April 1, 2015. The 2015 MSA will be filed as supplemental information in this docket when it is finalized.⁹

The Department requested that CenterPoint Energy provide the MSA and a red-line copy so that a comparison could be made to the initial MSA.¹⁰ After discussions with the Department, on February 12, 2015, the Company requested an extension of the Department's initial comments since the MSA was not yet completed.

On March 24, 2015, CenterPoint Energy filed only a "clean copy" of the MSA¹¹ and stated that "[t]he inclusion of customer service and stated support functions is discussed on page 14 of the MSA."¹² Upon review, the Department again requested that the Company provide a red-line version since multiple changes were made to the MSA.

⁷ Minnesota Rule 7825.2200 (B) (2) requires "a copy of the contract or agreement, or modifications or revisions of an existing contract or agreement." The procedures endorsed in Docket No. 98-651 follow the filing requirements of Minn. R. 7825.2200 (B) but add or clarify information needed to determine whether an affiliate transaction is consistent with the standards contained in 216B.48. Item 9 is in addition to the statute.

⁸ CenterPoint Energy's CAM is used to allocate costs between the Company's regulated and non-regulated businesses.

⁹ Petition, page 9.

¹⁰ February 6, 2015 e-mail with CenterPoint Energy personnel.

¹¹ A red-line copy was not filed.

¹² March 24, 2015 Supplemental Information cover letter.

On April 2, 2015, CenterPoint Energy filed clean and red-line versions and explained that the MSA filed on March 24, 2015 included an error that the April 2, 2015 version does not include. The Company stated that “[t]he description of Regulated Operations on page [14] and also included in the Exhibit II, contained Safety and Technical Training that was included in error.”¹³

The Department concludes that the filing is now complete as of the April 2, 2015 filing.

The Department discusses below the merits of the information provided by CenterPoint Energy pursuant to these filing requirements.

C. ANALYSIS OF THE MSA

1. Overall Review

The Department reviewed the proposed MSA. The Department concludes, as it did for the previous MSA, that the proposed MSA is reasonable and consistent with the public interest.

2. Public Interest

In its petition, CenterPoint Energy stated that the proposed MSA is in the public interest because over time, a unified call center and related support functions in ServiceCo will allow for synergies between Houston and Minnesota including:

- the reduction of seasonal and peak impacts due to the ability to utilize resources across both physical locations;
- the ability to better manage operational disruptions due to inclement weather because the call centers are located in diverse geographical locations (Disaster/Weather Risk Mitigation); and
- a larger pool of CSRs to respond to priority calls, such as emergency calls, and to adjust to demands of the business.¹⁴

Based on these forecasted synergies, the Department concludes that the proposed 2015 MSA is consistent with the public interest. Because the amount of the corporate allocations as well as the synergies is unknown at this time, the Department recommends that the Commission require CenterPoint Energy to file in its next general rate case Direct Testimony demonstrating the monthly savings in dollar amounts to CenterPoint Energy related to the corporate allocations in the proposed MSA from the time of its implementation on December 15, 2014.

3. Amount of Compensation

In the proposed MSA, the description of the new Customer Operations service is as follows:

¹³ April 2, 2015 Supplemental Information cover letter.

¹⁴ Petition, pages 8 and 10.

Provide clients with call center support for handling customer billing, service requests, and inquiries and complaints. It also includes the processing of claims, credit and collections, customer care, and marketing and sales services. Costs for Customer Services are generally allocated on unit usage (e.g., number of customers, call minutes).¹⁵

Further, the proposed MSA provides that “[u]nless otherwise specifically agreed between ServiceCo and a Recipient, ServiceCo will provide such services at cost allocated on a fair, nondiscriminatory basis.”¹⁶ In its Petition, CenterPoint Energy explained the consideration received by ServiceCo further:

Where capital is employed in providing those services, costs include an allowance for capital employed. ServiceCo will distribute all charges among recipients, to the extent possible, based on direct assignment. Amounts remaining after direct assignment will be allocated among recipients in a fair and equitable manner, as discussed in the MSA.¹⁷

CenterPoint Energy also stated that the exact amount of the corporate allocations to CenterPoint Energy Minnesota Gas for the customer service and support functions is unknown at this time.¹⁸ Further, the Company gave details on how costs related to the call center functions and related support functions would be allocated:

Costs related to the call center functions will be allocated from ServiceCo to CenterPoint Energy Minnesota Gas based on the minutes handled by agents working with Minnesota customers. This method is appropriate because activities of this cost center primarily relate to providing customer service through customer calls that vary in length. By allocating call center costs based on minutes, Minnesota ratepayers will only be charged for the costs associated with the handling of a Minnesota customer, regardless of the agent location.

Costs for related support functions will be allocated from ServiceCo to CenterPoint Energy Minnesota Gas based on either customer count or minutes and directly billed where appropriate, such as the Gas Affordability Program. This is appropriate because the support functions provide support and oversight of the entire customer experience and are necessary for all the regions.

¹⁵ CenterPoint Energy’s April 2, 2015 Supplemental Information filing, the clean version of Exh. B-1, page 14.

¹⁶ CenterPoint Energy’s April 2, 2015 Supplemental Information filing, the clean version of Exh. B-1, Section V(A), page 3.

¹⁷ Petition, page 4.

¹⁸ Petition, pages 8 and 10.

Since customer count or minutes are related to the origin of the costs, the Department concludes that the methodologies used to determine compensation to ServiceCo appear to be reasonable.

During its review of the proposed MSA, the Department noticed that some minor changes were made to the allocation methods. For example, the “Direct Billed” ratio was added to many of the services. While the Department does not object to any of the changes made to the allocation methods, the Department recommends that the Commission make no finding on the appropriateness of the cost allocation methodologies set forth in the MSA at this time.¹⁹

4. *Competitive Bidding*

Competitive bidding is required when products, services, or property acquired from an affiliate are competitively available, and is the preferred method to ensure that companies are not favoring their affiliates. CenterPoint Energy uses a mix of internal and external resources. The Company explained the benefits of not outsourcing all of the call center operations:

Competitive bidding was not conducted before entering into this Agreement. The Company’s current call center operations utilize a combination of internal and external resources. This combination enables the Company to realize benefits that otherwise would not be fully realized if it were to outsource 100% of the call center. One benefit is the ability to route specific call types to internal or external agents. Calls, such as Gas Emergency and those that are complex and more consultative can be routed to internal agents. Calls that are more transactional in nature can be directed to external resources. This enables the Company to provide answers and solutions for customers that are more responsive and effective. Other benefits of having a combination of internal and external resources include business continuity, leveraging skills and competencies that each possesses, and managing other customer engagement channels (e.g., email), diversity of labor markets, and flexibility in managing variations of call volumes. These benefits would be compromised if CenterPoint Energy were to outsource 100% of the call center. Therefore, the Company will continue to use a mix of internal and external resources.²⁰

¹⁹ In Docket No. G008/AI-04-376, while the Commission approved the proposed 2004 MSA, it also found that the specific allocation methodologies contained within the MSA would not be approved, since those methodologies involve complex issues that are more appropriately addressed in a rate case.

²⁰ Petition, page 9.

During its review, the Department noticed some services that appeared to be added such as Environmental Services, Fleet Services, Administration and Continuous Improvement, and Properties. CenterPoint Energy responded that, generally speaking, the services have not changed but are now called out separately:

The Master Service Agreement (MSA) was approved in the 2004 docket and, generally speaking, the services provided by ServiceCo to MN have not changed – ServiceCo provides administrative and service functions involving system-wide coordination and strategy, compliance and oversight. The corporate services listed in the MSA are reviewed each year and referred to in a general manner to identify the services being provided. The services included in your question are not new services offered by ServiceCo, but are now called out separately. Specifically:

- Environmental Services – The Environmental Services and Compliance Director has been identified and added to the Service Company MSA to support company-wide environmental compliance activities.
- Fleet Services – Fleet Administration was also identified and added to the Service Company MSA to assume consolidated oversight over company-wide Fleet operations.
- Administration and Continuous Improvement – was previously a part of the Executive Service function, but not separately listed.
- Properties – was previously a part of Business Services under Real Estate and Facilities Management, but not separately listed.²¹

The Department does not object to any of the changes made to the MSA for services since these are corporate services that could be provided by a service company to its subsidiaries.²² The Department concludes that competitive bidding should not be required for this petition.

²¹ Per an April 8, 2015 e-mail from CenterPoint Energy personnel.

²² On January 1, 2004 ServiceCo began to provide corporate services to its subsidiaries which were previously provided by CenterPoint Energy and its affiliates using a company allocation manual. ServiceCo does not perform any core public utility operations or functions, such as dispatch or delivery of energy.

5. *Customer Information*

According to CenterPoint Energy, “[a]ccess to customer information will be available only to the Service Company employees for the purpose of providing customer service to the Company.”²³ The Department concludes that the 2015 MSA is reasonable in this regard.

6. *Cost Allocation Manual (CAM)*

The Commission’s July 11, 1996 Order in Docket No. G008/AI-96-37 required an explanation of changes made to the CAM or reasons why changes are not necessary. CenterPoint Energy responded that:

Customer Service costs allocated by ServiceCo will be assigned to the Company’s regulated and non-regulated business lines consistent with the Cost Allocation Manual (CAM). As a result of this filing, no changes have been or will be made to the CAM which deals with the allocations of joint costs between regulated and non-regulated operations of CenterPoint Energy Minnesota Gas.

The Department does not oppose this.

7. *Effective Date*

The proposed effective date of the MSA is December 15, 2014, and by submitting its petition for approval on January 14, 2015, CenterPoint Energy met the 30-day filing requirement. The Department concludes that the proposed effective date is reasonable.

III. **RECOMMENDATION**

Based on its review of CenterPoint Energy’s petition, the Department concludes that the proposed MSA is reasonable and consistent with the public interest. Therefore, the Department recommends that the Commission:

- approve CenterPoint Energy’s proposed modified MSA; and
- require the Company to file in its next general rate case Direct Testimony demonstrating the monthly savings in dollar amounts to CenterPoint Energy related to the corporate allocations in the proposed MSA from the time of its implementation on December 15, 2014.

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²³ Petition, page 9.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. G008/AI-15-50

Dated this 16th day of April 2015

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
David	Aafedt	daafedt@winthrop.com	Winthrop & Weinstine, P.A.	Suite 3500, 225 South Sixth Street Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_15-50_AI-15-50
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_15-50_AI-15-50
James J.	Bertrand	james.bertrand@leonard.com	Leonard Street & Deinard	150 South Fifth Street, Suite 2300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-50_AI-15-50
Brenda A.	Bjorklund	brenda.bjorklund@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave FL 14 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-50_AI-15-50
Jerry	Dasinger	jerry.dasinger@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	No	OFF_SL_15-50_AI-15-50
Jeffrey A.	Daugherty	jeffrey.daugherty@centerpointenergy.com	CenterPoint Energy	800 LaSalle Ave Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-50_AI-15-50
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, 1400 BRM Tower St. Paul, MN 55101	Electronic Service	No	OFF_SL_15-50_AI-15-50
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_15-50_AI-15-50
Edward	Garvey	garveyed@aol.com	Residence	32 Lawton St Saint Paul, MN 55102	Electronic Service	No	OFF_SL_15-50_AI-15-50
Michael	Greiveldinger	michaelgreiveldinger@alliantenergy.com	Interstate Power and Light Company	4902 N. Biltmore Lane Madison, WI 53718	Electronic Service	No	OFF_SL_15-50_AI-15-50

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	No	OFF_SL_15-50_AI-15-50
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_15-50_AI-15-50
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_15-50_AI-15-50
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_15-50_AI-15-50
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-50_AI-15-50
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	No	OFF_SL_15-50_AI-15-50
Peggy	Sorum	peggy.sorum@centerpointenergy.com	CenterPoint Energy	800 LaSalle Avenue PO Box 59038 Minneapolis, MN 554590038	Electronic Service	No	OFF_SL_15-50_AI-15-50
James M.	Strommen	jstrommen@kennedy-graven.com	Kennedy & Graven, Chartered	470 U.S. Bank Plaza 200 South Sixth Street Minneapolis, MN 55402	Electronic Service	No	OFF_SL_15-50_AI-15-50
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_15-50_AI-15-50
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_15-50_AI-15-50