

Staff Briefing Papers

Meeting Date January 14, 2021 Agenda Item 1**

Company CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas

Docket No. **G-008/AI-19-292**

In the Matter of the Petition by CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas, for Approval of an Affiliated Interest Agreement Regarding the Metro Belt Line System, Entitled 2020 (MBLSE) Replacement Project Contract Between CenterPoint Energy Minnesota Gas and Minnesota Limited, LLC.

Issues

1. Should the Commission accept CenterPoint Energy Minnesota Gas' Compliance Filing?
2. Should the Commission accept the sale of MVerge (Miller Pipeline and Minnesota Limited) as ending CenterPoint Energy Minnesota Gas' Affiliated Interest Agreement with Minnesota Limited, LLC?

Staff Ray Hetherington raymond.hetherington@state.mn.us 651-201-2203
Jorge Alonso jorge.alonso@state.mn.us 651-201-2258



Relevant Documents

Date

PUC – Order Approving 2019 Construction Services Contract With Conditions December 30, 2019

To request this document in another format such as large print or audio, call 651.296.0406 (voice). Persons with a hearing or speech impairment may call using their preferred Telecommunications Relay Service or email consumer.puc@state.mn.us for assistance.

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

 **Relevant Documents**

Date

CenterPoint Energy Minnesota Gas – Compliance Filing (Public & Trade Secret)	January 29, 2020
CenterPoint Energy Minnesota Gas – Letter Announcing Sale	February 5, 2020
PUC – Notice of Request for Information and Comments	February 20, 2020
Department of Commerce – Letter on Request for Information	April 2, 2020
CenterPoint Energy Minnesota Gas – Mverge Sale Comments	April 2, 2020
Department of Commerce – Letter	April 24, 2020
Department of Commerce – Mverge Sale Comments	May 4, 2020

I. Statement of the Issues

1. Should the Commission accept CenterPoint Energy Minnesota Gas' Compliance Filing?
2. Should the Commission accept the sale of MVerge (Miller Pipeline and Minnesota Limited) as ending CenterPoint Energy Minnesota Gas' Affiliated Interest Agreement with Minnesota Limited, LLC?

II. Introduction

On December 30, 2019, the Minnesota Public Utilities Commission (the Commission) issued its ORDER APPROVING 2019 CONSTRUCTION SERVICES CONTRACT WITH CONDITIONS, in this docket. The Order's conditions required, within 30 days, a compliance filing disclosing any changes in CenterPoint Energy Minnesota Gas' (CPEM, CenterPoint Energy, CenterPoint or the Company) relationship with its affiliated vendor, Minnesota Limited, and additional details regarding costs and any scope changes in the contract.

On January 29, 2020, CPEM submitted its required compliance filing.

On February 5, 2020, CPEM filed a letter in this instant docket informing the Commission of the sale of Minnesota Limited and a second infrastructure services company, Miller Pipeline (collectively MVerge), to PowerTeam Services, LLC (PowerTeam).

On February 20, 2020, the Commission filed its NOTICE OF REQUEST FOR INFORMATION AND SUBSEQUENT COMMENT PERIOD (Notice).

On March 6, 2020, CPEM filed its preliminary pro-forma journal entries and other information¹ complying with the Commission's Notice information requirements.

On April 2, 2020, CPEM submitted comments in response to the Commission's Notice.

Also, on April 2, 2020, the Department filed a letter stating that CPEM's comments of March 6, 2020 did not provide sufficient information to analyze and answer the Commission's questions presented in its Notice.

On April 10, 2020, CPEM submitted a letter informing the Commission that CenterPoint Energy, Inc.'s (CPEI's) sale of MVerge to Power Team had closed, ending CPEM's affiliated relationship with Minnesota Limited.

On April 24, 2020, the Department filed another letter repeating that the information included in CPEM's March 6, 2020 comments did not allow for analysis to answer the topics in the

¹ Press releases, employee announcements, and 4th quarter earnings information.

Commission's Notice. The Department said that it would file comments 30 days after CPEM's April 2, 2020 comments.

On May 4, 2020, the Department submitted its comments based on CPEM's April 2, 2020 comments.

III. Background

On April 23, 2018, CenterPoint Energy, Inc. (CPEI) and Vectren Corporation (Vectren) announced they had entered into an agreement to merge via CPEI's acquisition of Vectren.

On July 30, 2018, CPEM filed a petition (Petition) with the Commission seeking approval of an affiliated interest agreement with Minnesota Limited, LLC (Minnesota Limited).² CPEM is an operating division of CenterPoint Energy Resources Corp. (CERC), which is a CPEI subsidiary. At the time CPEM filed its Petition, Minnesota Limited was a non-regulated, subsidiary of Vectren, and the CPEI's acquisition of Vectren was still pending.

On October 26, 2018, CPEM filed a Stipulation committing the Company to a number of conditions and reporting requirements related to the proposed Vectren acquisition.

On January 14, 2019, the Commission issued an informal order, in Docket No. G-008/AI-18-517, approving the Stipulation and asking the Department to move forward with considering the Petition's merits.

On February 1, 2019, CPEI announced the merger's completion, at which point Vectren became a wholly owned CPEI subsidiary.

On April 29, 2019, CenterPoint Energy Minnesota Gas filed a Petition, in this docket, requesting Commission approval of the 2019 MBLSE Replacement Project contract between the Company and Minnesota Limited, LLC as an affiliated interest agreement.

On September 11, 2019, the Commission issued its Order³ approving CPEM's 2018 Metro Beltline Replacement Project construction services contract with Minnesota Limited, LLC. The Commission took no action on cost recovery, deferring that issue to the Company's next rate case. (That rate case settled and is on the agenda for this Commission meeting.)

Also, on September 11, 2019, the Department and, separately, the Office of Attorney General (OAG) submitted comments on the instant Petition. And, on September 23, 2019, CenterPoint Energy submitted reply comments accepting the Department's recommendations and objecting to the OAG's.

² CenterPoint Energy's Petition, Docket No. G-008/AI-18-517, July 30, 2018.

³ Order Approving 2018 Construction Services Contract As An Affiliated Interest Agreement, Docket No. G-008/AI-18-517

On December 30, 2019, the Commission issued its ORDER APPROVING 2019 CONSTRUCTION SERVICES CONTRACT WITH CONDITIONS.

IV.CPEM's Compliance Filing

CPEM's compliance filings, as required by the Commission's December 30, 2019 Order, included all required information involving any change in relationship, changes to the construction contract scope of work, and the actual costs of work (as trade secret information).

V. Commission's Notice Requesting Information and Comments

On February 20, 2020, the Commission filed its NOTICE OF REQUEST FOR INFORMATION AND SUBSEQUENT COMMENT PERIOD regarding the impacts of CPEM's sale of MVerge to PowerTeam Services, LLC.

A. Request for Information

The Commission directed CPEM to provide by March 6, 2020:

- Preliminary, pro-forma journal entries that would record the sale of Miller Pipeline and Minnesota Limited (collectively, MVerge) to PowerTeam Services, LLC.
- A copy and explanation of any information (including SEC disclosure filings) provided to shareholders and other stakeholders related to the effects of this sale.

B. Issue and Topics Open for Comment

In its notice, the Commission asked whether the sale of Miller Pipeline and Minnesota Limited (collectively, MVerge) to PowerTeam Services, LLC would have an impact on Minnesota ratepayers? And, if so, how will Minnesota ratepayers be protected from any possible adverse effects of this transaction?

The following topics were identified in the notice as being open for comment:

1. Does this sale have an impact on Minnesota ratepayers? If so, how?
2. Will this transaction result in any anticipated Goodwill impairment charges for CenterPoint Energy, Inc. (CNP)?
3. What will CNP's pro-forma capital structure be following this sale?
4. How will Minnesota ratepayers be protected from any possible credit rating agencies' downgrades that may result from this sale?
5. Will this sale have an impact on rate base or O&M expenses in CPE's current rate case?
6. How will this sale impact the 2020 construction season?
7. Are there other issues or concerns related to this matter?

C. Responses to Commission’s Request for Information

On March 6, 2020, CPEM filed its preliminary pro-forma journal entries along with other information, such as press releases, employee announcements, and 4th quarter earnings information, in accordance with the Commission’s Notice.

VI. Responses to Commission’s Issue and Topics Open for Comment

A. Does this sale have an impact on Minnesota ratepayers? If so, how?

1. CPEM’s Reply Comments

CPEM stated that the sale of MVerge will not have an impact on Minnesota ratepayers. The Company said that the sale will not “adversely affect overall service quality, the Company’s energy efficiency programs, or the Company’s transmission and distribution integrity management programs”.

The Company asserted that, “[i]n terms of financial impact on Minnesota ratepayers, current rates will not be adjusted for any impact of the MVerge sale, and the sale had no impact in the development of the Company’s current rate case”.

Further, CPEM said that it is not seeking to recover any increase in corporate costs that resulted from the merger and the merger resulted in no changes to corporate cost allocations. The Company pointed out that its 2020 Test Year included an overall cost reduction when compared to the 2018 base year.

2. Department’s Response

The Department stated that it agreed with CPEM that the sale should have little to no impact on Minnesota ratepayers.

The Department pointed out that, since the MVerge component companies are not regulated utilities, there should have been little integration with CPEM’s operations and should have little impact on the Company’s operating expenses. However, the sale will have an impact on cost allocations from CenterPoint Energy Service Company, LLC (Service Company) to CPEM and other CPEI entities, but the effect of the impact is difficult to predict.

The Department pointed out that the total dollar amounts allocated to CPEM and other CPEI entities may decrease slightly. However, inputs to the calculation of allocators of CPEM’s share of costs allocated from the Service Company may result in an increase in the percentage of total costs assigned to CPEM.

The Department added that, CPEM's initial filing in its 2019 Rate Case⁴ used 2018 as a base year and made adjustments to arrive at its calculated 2020 test year revenue requirements. DOC said:

Because Vectren was not merged into CPEI until February 2019, CPEM included a \$3.4 million credit to Service Company costs allocated to CPEM to reflect the addition of Vectren's employees, assets, operating expenses, and gross margins would have on the allocator calculations.⁵ If CPEM were to reflect the sale of MVerge in an update to its 2019 Rate Case, that credit would likely be revised downward, resulting in higher rates for CPEM's ratepayers, all else equal.

The Department said that it could investigate the MVerge sale cost allocation impacts in CPEM's current rate case and recommend any adjustments as necessary.

B. Will this transaction result in any anticipated Goodwill impairment charges for CenterPoint Energy, Inc. (CNP)?

1. CPEM's Reply Comments

CPEM replied that the sale would result in an impairment of goodwill:

CenterPoint Energy anticipates recording an impairment loss on assets held for sale of approximately \$85 million, plus an additional loss for transaction costs, in the first quarter of 2020. The actual amount of the impairment or loss may be materially different from the preliminary amount.

The Company further stated that any goodwill adjustments will be borne by CenterPoint Energy, Inc (CPEI) and not Minnesota ratepayers.

2. Department's Response

The Department agreed that any goodwill impairment should be recorded at CPEI and not allocated to CPEM.

Further, since CPEM has stated that it does not intend to update its test year financials, no portion of any goodwill impairment will be included in its current rate case.

⁴ Docket No. G-008/GR-19-524.

⁵ Department's Comments, May 4, 2020, p. 4, Department footnote 2: These allocators are described in CPEM's current rate case, Docket No. G008/GR-19-524, in the Direct Testimony of Michelle M. Townsend at 15-16.

C. What will CNP's pro-forma capital structure be following this sale?

1. CPEM's Reply Comments

CPEM stated that it did not anticipate any material change in its capital structure as a result of the MVerge sale. CPEM noted that the sale would result in reduced equity, but that would be offset by the Company's use of sale proceeds to reduce debt.

The Company said that it will continue to adhere to the following commitments for rate setting purposes:

On its Minnesota jurisdictional books and for regulatory purposes, the Company will recognize a capitalization structure and applicable cost of financing typical of an A-rated utility; and

The Company will maintain approximately a 50/50 debt equity ratio, with each debt instrument reflecting the costs associated with that of an A-rated utility at the time that the debt instrument is booked.

2. Department's Response

The Department agreed that the MVerge sale would be unlikely to materially alter CPEI's capital structure. The Department noted that in its SEC Form 8-K dated February 3, 2020 CPEM reported an estimated range of after-tax proceeds between \$668 million and \$683 million.⁶

⁶ Ibid, p.5, Department footnote 3: CPEM provided links to the February 3, 2020 SEC Form 8-K in its February 5, 2020 Letter as well as its March 3, 2020 Compliance Filing.

The Department provided Table 1 below, using the lower estimate to adjust CPEI's projected 2019 and 2020 capital structures, as reported in CPEM's current rate case, to estimate CPEI's post-transaction capital structure.⁷

Table 1 – CPEI Capital Structure: Pre- and Post-MVerge Sale⁸

	Pre-MVerge Sale		MVerge Sale Adjustment (\$000)	Post-MVerge Sale	
	Amount (\$000s)	Ratio (%)		Amount (\$000s)	Ratio (%)
<u>2019 Average - Projected</u>					
Long-Term Debt	11,290	57.83%	(668)	10,622	56.88%
Short Term Debt	1,756	8.99%		1,756	9.40%
Trust Preferred Securities	1,778	9.10%		1,778	9.52%
Common Stock Equity	4,700	24.07%	(182)	4,518	24.2%
Total	19,523	100.00%	(850)	18,673	100.00%
<u>2020 Average -Projected</u>					
Long-Term Debt	12,543	61.41%	(668)	11,875	60.66%
Short Term Debt	1,115	5.46%		1,115	5.70%
Trust Preferred Securities	1,778	8.7%		1,778	9.08%
Common Stock Equity	4,990	24.43%	(182)	4,808	24.56%
Total	20,426	100.00%	(850)	19,576	100.00%

The Department further said that it agreed with CPEM's assertion that the 02-1368 Order⁹ protects CPEM's ratepayers from any effects of the MVerge sale on CPEI's capital structure and cost of capital.

D. How will Minnesota ratepayers be protected from any possible credit rating agencies' downgrades that may result from this sale?

1. CPEM's Reply Comments

CPEM stated that, since the Company is required to reflect the debt costs associated with that of an A-rated utility, any possible credit actions by credit-rating agencies would have no impact on Minnesota customers.¹⁰

⁷ Ibid, p.5, Department footnote 4: Required Schedule D-1(b) of the Company's initial filing its current rate case reports CPEI's actual average capital structure for 2018, and projected average capital structures for 2019 and 2020.

⁸ Ibid, p. 5, Department Table 1.

⁹ Docket No. G-008/CI-02-1368, April 8, 2003, ORDER--REQUIRING FILINGS TO PROTECT MINNESOTA RATEPAYERS -SF

¹⁰ CPEM Reply Comments, April 2, 2020, p. 4, CPEM footnote 2: In addition, S&P Global and Moody's have both published that the sale of MVerge is credit positive to CNP from a business risk perspective.

2. Department's Response

The Department agreed with CPEM that the 02-1368 Order insulates its ratepayers from any negative effects resulting from potential downgrades by credit-rating agencies.

E. Will this sale have an impact on rate base or operations and maintenance (O&M) expenses in CenterPoint Energy Minnesota Gas's current rate case?

1. CPEM's Reply Comments

CPEM noted that, since the MVerge sale was not contemplated when developing CPEM's initial rate case filing, it will not have an impact on the rate base or O&M expenses the Company proposed in its current rate case

2. Department's Response

The Department said that, as stated in Topic 1 above, it expects that the only part of CPEM's rate case that may be affected by the could be cost allocations from Service Company to CPEM.

F. How will this sale impact the 2020 construction season?

1. CPEM's Reply Comments

CPEM asserted that the sales will have no impacts on its 2020 construction season. Further:

The Company plans to continue work on the beltline in the 2020 construction season and Minnesota Limited has recently been awarded the 2020 construction contract through the Company's bidding process. The Company is preparing an affiliate filing and we will submit the 2020 Minnesota Limited contract for the Commission's review pursuant to the affiliate transaction rules.

2. Department's Response

The Department stated that it would review CPEM's 2020 construction contract with Minnesota Limited in the Company's 2020 affiliated interest docket.¹¹ However, the Department noted that the selection processes used in the 2018 and 2019 construction seasons, CPEM treated Minnesota Limited as if it were a third party contractor.

The Department pointed out that it expected CPEM's selection and contracting process for the 2020 construction season would treat Minnesota Limited as an unrelated party on equal terms with all other bidders. Further, the Department expected that the terms of the 2020

¹¹ Staff notes that CPEM's petition for the 2020 affiliated interest agreement was filed on May 15, 2020 in Docket No. G-008/AI-20-495.

construction contract and its scope of work and costs “such that it does not matter that Minnesota Limited was an affiliate during the selection process, but will not be an affiliate during the period that the work will be completed”.¹²

The Department concluded by noting that the contracts for the 2018 and 2019 construction seasons included language that allowed CPEM to add, if time and resources permitted, to the scope of work for which it initially sought bids. The Department said that, since Minnesota Limited is no longer an affiliate, CPEM would have no motivation to add work at inflated prices without seeking bids from other contractors, thus benefitting Minnesota Limited (and ultimately CPEI’s shareholders).

G. Are there other issues or concerns related to this matter?

1. CPEM’s Reply Comments

CPEM stated that, in summary, the sale of MVerge will not impact Minnesota customers and the Company has no other issues for the Commission related to this matter.

2. Department’s Response

The Department said that it had no additional issues of concerns related to the sale of MVerge to PowerTeam.

H. Department’s Conclusion and Recommendations

The Department concluded by stating that it does not expect CPEI’s sale of MVerge to have any significant effects on either CPEM or CPEM’s customers. The Department recommended no specific further action by the Commission on this matter.

VII. Staff Comment

Staff appreciates CPEM’s reply comments and the Department’s analysis. Staff agrees with the Department’s conclusion and recommendation.

¹² Department Comments, May 4, 2020, p. 8.

VIII. Decision Alternatives

Compliance Filing

1. Accept CPEM's compliance filings as submitted, or
2. Take other action as the Commission considers appropriate.

CPEI's Sale of MVerge

3. Accept the Department's recommendation to take no further action at this time, or
4. Take other action as the Commission considers appropriate.