

Staff Briefing Papers

Meeting Date February 6, 2020 Agenda Item 3*

Company CenterPoint Energy

Docket No. **G-008/M-19-687**

In the Matter of CenterPoint Energy’s Notification of Filing of Internal Revenue Service Form 3115, Application for Change in Accounting

Issues Should the Commission accept CenterPoint Energy’s Report and the Department’s Commitment to review income tax expense in CenterPoint Energy’s pending rate case?

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 **Relevant Documents**

Date

CenterPoint Energy Initial Filing

November 1, 2019

Department of Commerce Comments

November 27, 2019

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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.

I. Statement of the Issues

Should the Commission accept CenterPoint Energy's Report and the Department's Commitment to review income tax expense in CenterPoint Energy's pending rate case?

II. Background

On November 1, 2019, CenterPoint Energy (CenterPoint Energy-Minnesota Gas) provided for informational purposes only, a copy of Internal Revenue Service (IRS) Form 3115, Application for Change in Accounting Method that CenterPoint Energy, Inc. filed with the IRS on October 14, 2019. Pursuant to IRS regulations, CenterPoint Energy is required to provide a copy of Form 3115 to all regulatory bodies having jurisdiction over the public utility property subject to this application.

CenterPoint Energy stated that:

The purpose of the Form 3115 is for the company to make a change in method of income tax accounting for mixed service costs under Section 263A of the Internal Revenue Code... This change of method of accounting is for income tax purposes and has no impact on GAAP accounting for CenterPoint Energy, or the Applicants [(CenterPoint Energy Houston Electric, LLC, CenterPoint Energy-Arkla, CenterPoint Energy-Minnesota Gas, and CenterPoint Energy-Entex)]. **This notification is for information purposes only and no action is required of the regulatory body nor is any action being requested by CenterPoint Energy or the Applicants.**

On November 27, 2019, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed a letter in which it stated:

The Department reviewed CenterPoint Energy's Application for Change in Accounting Method (Form 3115) and notes that it pertains to the expensing of certain assets for tax purposes that were previously capitalized for tax purposes.¹ The Department understands that the assets in question will continue to be capitalized and depreciated for GAAP and ratemaking purposes. As a result, the Department notes that the requested accounting change for tax purposes only should not have a direct impact on overall tax expense reflected in Minnesota rates. However, the Department intends to review this issue in the context of CenterPoint Energy – Minnesota Gas' recently filed rate case in Docket No. G008/GR-19-524 to ensure that no additional tax expense is reflected in Minnesota rates and any related tax benefits that accrue from this accounting change (changes in accumulated deferred income taxes due to timing differences

¹ The amount of certain assets that were previously capitalized for tax purposes that CenterPoint Energy now proposes to expense for tax purposes in 2018 total \$7,486,562 for CenterPoint Energy – Minnesota Gas. See Attachment to Form 3115, Page 3 of 4 included in CenterPoint Energy's November 1, 2019 filing in Docket No. G-008/M-19-687.

between book/GAAP and tax basis) are appropriately accounted for in Minnesota rates.

III. Staff Analysis

Staff believes that no Commission action is necessary, but the Commission may wish to formally accept CenterPoint Energy's informational filing to ensure there is a record of the Company providing this information to the Commission and the Department's commitment to review income tax expense in CenterPoint Energy's pending rate case.

IV. Decision Options

1. Accept CenterPoint Energy's informational filing and the Department's commitment to review income tax expense in CenterPoint Energy's pending rate case.

or

2. Take no action.