

STATE OF MINNESOTA
BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matthew Schuerger	Commissioner
Katie J. Sieben	Commissioner
John A. Tuma	Commissioner

In the Matter of the Petition of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Minnesota Gas, for Approval of an Affiliated Interest Agreement between CenterPoint Energy Minnesota Gas and Minnesota Limited

Docket No. G-008/AI-18-517

**STIPULATION OF
CENTERPOINT ENERGY
MINNESOTA GAS**

INTRODUCTION

On July 30, 2018, CenterPoint Energy Minnesota Gas (“CPEM” or “Company”) filed a Petition in the above-captioned docket requesting Minnesota Public Utilities Commission (“Commission”) approval of an affiliated interest agreement with Minnesota Limited, as Minnesota Limited will become an affiliate of CPEM upon the closing of CenterPoint Energy Inc.’s (“CenterPoint Holdco”) acquisition of Vectren Corporation (“Transaction”).

On August 15, 2018, the Commission issued a Notice of Comment Period, seeking comments on both the affiliated interest agreement and the Transaction. Following multiple rounds of comments by CPEM, the Department of Commerce Division of Energy Resources (“DOC”) and Office of Attorney General Residential Utilities and Antitrust Division (“OAG”) (collectively, “Parties”), the Parties engaged in discussions to resolve concerns either the DOC or OAG had raised regarding possible impacts of the Transaction on Minnesota ratepayers and in an effort to avoid unnecessary litigation and controversy. This Stipulation is the result of those discussions. Should the Commission approve this Stipulation, the Parties agree that the Commission can consider the Petition on its merits and need not take further action on the Transaction.

STIPULATION

CPEM hereby stipulates and agrees to the following conditions related to the Transaction, to be incorporated into an Order of the Commission in MPUC Docket No. G-008/AI-18-517. Incorporation of these commitments into an Order does not constitute “pre-approval” of cost recovery for any of the categories of costs listed and neither the DOC nor OAG waive any right to challenge any cost recovery proposals. In any proceeding requesting such recovery, CPEM will bear the burden of proof to demonstrate that it is just and reasonable for the Company to recover any costs associated with the Transaction.

1. Transaction Costs: CPEM will not seek recovery of any Transaction Costs from Minnesota ratepayers.

For purposes of this document, “Transaction Costs” means the costs incurred to structure, negotiate and execute the transaction, professional services fees, including investment banker fees, counsel fees, audit fees, accounting fees, and the like, and direct internal labor and external services needed to evaluate the merger, negotiate its terms, obtain regulatory approvals, obtain shareholder approvals, and execute transaction contracts.

In its next general rate case, CPEM will provide testimony and schedules, as necessary, to demonstrate that any Transaction Costs have been removed from the Base Year and that no Transaction Costs have been included in the Test Year.

2. Transition Costs: CPEM shall not recover any Transition Costs from Minnesota ratepayers without demonstrating that they are prudent and reasonable.

For purposes of this document, “Transition Costs” means costs incurred due to the Transaction other than Transaction Costs, including but not limited to:

- severance costs;
- the costs to combine, integrate, and/or align Vectren and CenterPoint following the transaction, including, but not limited to accounting and operating systems software integration costs;
- costs for moving employees (including changing headquarters);
- re-organization costs;
- bonuses or other compensation paid out as a result of the transaction;
- costs to terminate any duplicative leases, contracts, and operations; or
- financing costs to refinance existing obligations in order to achieve operational and financial synergies.

Severance costs, including severance payments related to incentive compensation plans and severance payments outside of salary or wages, related directly to Vectren's traditional regulated utility and non-regulated operations will not be included in any CPEM cost recovery application.

In its next general rate case, CPEM shall provide testimony and schedules, as necessary, to demonstrate whether any Transition Costs have been incurred in the Base Year or are included in the Test Year, any information necessary to demonstrate that they are prudent and reasonable, and information about how CPEM determined what costs should be considered Transition Costs. Additionally, in any proceeding before the Commission in which CPEM seeks to recover transition costs that is not a general rate case, CPEM will bear the burden of proof to demonstrate that recovery of such costs is just and reasonable.

3. Acquisition Adjustment: CPEM will not seek recovery of any "acquisition adjustment" or other adjustment related to goodwill.

CPEM will not seek recovery of any "acquisition adjustment" or other adjustment related to goodwill or other intangible assets, due to CenterPoint Holdco's acquisition of Vectren.

4. Flotation Costs: To the extent that CPEM seeks recovery of flotation costs in a general rate case, CPEM will not increase the calculation of a flotation cost factor as a result of flotation costs for any equity issued to finance the Transaction.

5. Corporate Costs and Cost Allocations: In its next general rate case, CPEM will not seek to recover greater costs as a result of the Transaction for comparable corporate services than allowed in the Test Year of CPEM's most recent rate case, with "comparable corporate services" meaning those corporate services of the same type and scope. The Company may propose to include an allowance for inflation in that comparison, which the Commission may approve, deny, or modify based upon the record before it at the time.

In its next general rate case, CPEM will fully discuss any changes to its corporate cost allocations resulting from the Transaction in a manner that allows comparison with corporate cost allocations allowed in its prior rate case. Any change in corporate allocations due to the Transaction will not result in an increased allocation of corporate costs being borne by Minnesota ratepayers. To the extent the Transaction results in material changes in corporate services received by CPEM, CPEM will file a new Master Services Agreement ("MSA") prior to or as part of its next general rate case filing.

CPEM further agrees that it will not seek to recover from Minnesota ratepayers any corporate costs originally sought to be recovered from another jurisdiction but for which such recovery was denied.

For any cost allocated directly or indirectly to CPEM for which CPEM requests cost recovery, CPEM agrees to provide, in its next general rate case, testimony, schedules and

workpapers providing the following information, as provided in MPUC Docket No. G-008/GR-17-285, Direct Testimony of CPEM witness Michelle Townsend, Schedule 3 Workpapers: Total Company costs, Minnesota direct cost assignments, Minnesota indirect cost assignments (including any Minnesota jurisdictional allocators), and amounts assigned directly and indirectly to each other jurisdiction (including their respective jurisdictional allocators). In addition, CPEM agrees to provide an explanation on how the Minnesota direct cost assignments and Minnesota jurisdictional allocators were determined.

Finally, in its next general rate case, CPEM will fully explain whether or not it proposes cost recovery from Minnesota ratepayers due to the creation or revaluation of any assets or liabilities on the books of any entity within CenterPoint's corporate structure due to the Transaction and, if so, the justification supporting that recovery.

6. Cost of Capital: Minnesota ratepayers will not pay an increased cost of capital due to the Transaction.

The Commission will determine the appropriate capital structure and cost of capital for ratemaking purposes in CPEM's next general rate case. CPEM acknowledges that in that rate case, it will continue to be regulated in accordance with the April 8, 2003 Order in MPUC Docket No. G-008/CI-02-1368, meaning CPEM will need to demonstrate that it:

- maintains on its Minnesota jurisdictional books and for regulatory purposes, a capital structure and applicable cost of financing typical of an A-rated utility; and
- maintains 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 the debt instrument is booked.

To the extent CPEM seeks an increased cost of debt in its next general rate case, it must demonstrate that any such increase is not a result of the Transaction.

7. Net Cost Savings:

The Transaction is anticipated to result in net cost savings, over time, with a goal of achieving net cost savings of two percent (2%) or more in non-fuel O&M and corporate costs allocated to Minnesota, within the first five years after close of the Transaction. In any general rate case filed during those five years, CPEM shall provide testimony regarding its efforts to achieve net cost savings and demonstrate that any net cost savings achieved in the test year have been reflected in proposed rates.

8. Service Quality: The Transaction will not adversely impact service quality for Minnesota ratepayers.

CPEM currently files service quality reports covering an array of metrics. CPEM agrees to work with DOC and OAG to identify those metrics of most significance and develop an appropriate benchmark against which to measure performance going forward (e.g. three-year or five-year average) and then provide compliance filings on an agreed upon interval to demonstrate that CPEM has maintained its current service quality levels.

9. Energy Efficiency: CPEM will continue its commitment to and pursuit of cost effective energy efficiency programs, including low-income energy efficiency programs.

The DOC will have an opportunity to review 2018 performance under the current Triennial plan and will also review the next proposed Triennial plan in 2019.

10. TIMP and DIMP reporting and metrics:

In order to provide additional information on its ongoing TIMP and DIMP investments, CPEM agrees to work together with the OAG and DOC to develop metrics and reporting requirements related to safety, reliability and cost effectiveness of CPEM's TIMP and DIMP expenditures and submit a report by April 1, 2019 on the result of those discussions. The Parties agree to explore various metrics and/or reporting requirements, including but not limited to: leak rate by pipe material; causes of leaks/incidents; quantification of system risk; quantification of reduction to system risk; unit cost by pipe material; comparison of budgeted costs to actual costs; and quantification of cost savings resulting from reduced leaks.

11. Gas procurement and cost recovery filings:

In its next rate case, or in its next annual fuel cost review, CPEM shall provide an explanation of: (1) how its fuel procurement strategies have changed, if at all, following the Transaction; (2) the rationale for any change or for maintaining the status quo; and (3) how CPEM's fuel procurement strategies help to minimize fuel costs for Minnesota ratepayers.

12. Continuity of current accounting practices:

CPEM agrees that it will notify the Commission, DOC and OAG if it identifies any material changes in current accounting practices as a result of the Transaction, and will comply with any statutory and rule requirements regarding any such change.

13. Books and Records:

CPEM will continue to provide the Commission, DOC and OAG access at its Minneapolis offices to the relevant CenterPoint Holdco, CenterPoint Energy Resources Corp. ("CERC")

and CPEM books and records, as necessary to protect CPEM ratepayers. These books and records will include all necessary information related to CPEM's operations, including capital structure, cost of capital, financial integrity and corporate cost allocations.

14. Compliance filings on integration efforts:

CPEM agrees to provide quarterly updates through 2020, and annually for an additional three years thereafter, to provide information about what steps have been taken or plans made to integrate the CenterPoint Energy and Vectren natural gas utility operations, including but not limited to: an overview and status update on integration plans and progress, a discussion of the steps taken to identify synergies or cost savings and to achieve those synergies or savings, copies of integration status updates sent to CenterPoint and Vectren employees (including officers and directors), the announcement of new officers, or other leadership changes affecting CPEM, changes to the corporate organizational structure affecting CPEM and results, findings, reports, recommendations, or conclusions produced by CenterPoint Energy and Vectren integration teams.

15. Dividend payments: CPEM agrees to make compliance filings related to dividend payments.

Within 90 days after the Transaction closes, CPEM will make a compliance filing explaining the process for dividend payments between CPEM, CERC, and CenterPoint Holdco, and any changes likely to occur as a result of the Transaction.

In its next general rate case, CPEM will provide testimony regarding any dividend payments made by CPEM since its last general rate case, including the reason for the dividends, and how they were calculated.

Dated: October 26, 2018

WINTHROP & WEINSTINE, P.A.

By: /s/ Eric F. Swanson
Eric F. Swanson, #188128
Elizabeth H. Schmiesing, #229258

225 South Sixth Street, Suite 3500
Minneapolis, Minnesota 55402
(612) 604-6400

ATTORNEYS FOR CENTERPOINT
ENERGY MINNESOTA GAS