

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Katie J. Sieben	Chair
Dan Lipschultz	Commissioner
Valerie Means	Commissioner
Matthew Schuerger	Commissioner
John A. Tuma	Commissioner

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

ISSUE DATE: December 30, 2019

DOCKET NO. G-008/AI-19-292

ORDER APPROVING 2019 CONSTRUCTION SERVICES CONTRACT WITH CONDITIONS

**PROCEDURAL HISTORY**

**I. CenterPoint Energy Minnesota Gas’s Affiliated Interest Agreement with Minnesota Limited**

On April 23, 2018, CenterPoint Energy Minnesota Gas (CenterPoint Gas or the Company) filed a petition seeking approval of an affiliated interest agreement with Minnesota Limited, LLC (Minnesota Limited) in Docket G-008/AI-18-517.<sup>1</sup>

On July 30, 2018, the Company filed a petition requesting Commission approval of an affiliated interest agreement, a construction services contract, with Minnesota Limited.

On October 26, 2018, the Company filed a Stipulation committing the Company to certain conditions and reporting requirements related to its proposed acquisition of Vectren. On January 14, 2019, the Commission approved the Stipulation and asked the Minnesota Department of Commerce (Department) to proceed with consideration of the merits of the Company’s petition.

On February 1, 2019, CenterPoint Energy Inc. announced the completion of the merger, at which time Vectren became its wholly-owned subsidiary. After the close of the merger agreement, the existing construction services contract between the Company and Minnesota Limited became subject to Minnesota’s Affiliated Interest statutes and rules, requiring Commission approval.

On September 11, 2019, the Commission issued an Order Approving 2018 Construction Services Contract as an Affiliated Interest Agreement.

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<sup>1</sup> Minnesota Limited is a non-regulated subsidiary of Vectren Corporation. As of February 1, 2019, Vectren is a wholly owned subsidiary of CenterPoint HoldCo, CenterPoint Gas’ ultimate parent entity.

## **II. This Petition**

On April 29, 2019, the Company filed a petition requesting approval of the 2019 pipeline installation work on CPE's metro belt line system, a project referred to as 2019 Metro Beltline Replacement Project (construction contract or MBLSE).

On September 11, 2019, the Department of Commerce, Division of Energy Resources (the Department) and the Office of the Attorney General–Residential Utilities Division (OAG) each filed comments on the petition.

On September 23, 2019, the Company filed reply comments.

On December 5, 2019, the Commission met to consider the matter.

## **FINDINGS AND CONCLUSIONS**

### **I. The Construction Contract**

The Company explained the work to be performed under the construction contract as follows:

The Construction Contract is part of the 2019 Metro Belt Line construction project. The work performed includes all supervision, labor and equipment to install approximately 22,170 feet of large diameter high pressure steel pipe within the project scope in the Cities of Golden Valley, St. Louis Park and Minneapolis. The work includes installation of a regulator station, valve inlet and outlet pits and regulator vaults, and the tie-in and testing of new and existing sections of the Belt Line. The work also includes installation of associated smaller diameter pipeline to support the Belt Line system.

The Company stated that it used a competitive bidding process to select Minnesota Limited, which it noted has experience working on the Company's distribution system and is one of the largest transmission pipeline contractors in this region. The Company emphasized that it is in the public interest to have qualified resources to reliably complete the pipeline replacement projects. CenterPoint Gas added that Minnesota Limited also provides maintenance services for pipeline systems, including valve maintenance, re-coating, right-of-way clearing, etc.

### **II. Positions of the Parties**

#### **A. The Department**

The Department reviewed the Company's filing and concluded that the petition reasonably meets the filing requirements of Minn. R. 7825.2200, part B, and the Commission's September 14, 1998 order in Docket No. G-008/AI-96-37.

The Company used a formal request for proposals (RFP) process to select a contractor to do the work required—the installation of approximately 22,170 feet of large diameter high pressure steel pipe and related facilities in Golden Valley, St. Louis Park, and Minneapolis. Five vendors were invited to bid on the project, but only two offered bids. The Department reviewed the Company’s bids and related materials, and concluded that the Company’s evaluation of the bids was reasonable.

The Department cautioned, however, that approval of an affiliated interest agreement is separate and distinct from recovery of costs incurred pursuant to that agreement. The Department stated that even if the Commission approves the 2019 affiliated interest contract, the Company will still bear the burden of demonstrating that the actual costs incurred pursuant to the contract are reasonable to justify the recovery of the costs from ratepayers.

The Department concluded that the Company’s proposed affiliated interest agreement with Minnesota Limited is reasonable and should be approved. The Department also recommended that the Commission require the Company to file the following information by April 30, 2020:

- a description of any changes in the Company’s relationship with Minnesota Limited;
- detail of the actual costs of the scope of work described on pages 4 - 10 of the 2019 affiliated interest agreement, and a comparison of the actual cost of the work to the estimated cost of the work as reported in Exhibit D of the Petition, with an explanation of any significant differences;
- detail of any changes to the scope of work performed under the 2019 affiliated interest agreement (e.g. additions via change orders), including: an explanation of what the changes were and why they were necessary, the additional costs associated with the changes, and a demonstration that those additional costs are reasonable to charge to ratepayers.

Because CenterPoint Gas has recently filed a rate case, the Department also recommended that the Commission require the Company to clearly identify all costs related to the 2019 affiliated interest agreement proposed to be recovered in rates, in a compliance filing made simultaneously in this Docket and in its pending rate case within 30 days of the issuance of the Commission’s order in this Docket.

## **B. The OAG-RUD**

The OAG-RUD asserted that the competitive bidding process used by CenterPoint Gas was flawed, in that it used an invitation-only RFP process that resulted in only two bids. To determine the project’s fair market value, an open competitive bidding process should have been employed by the agency. The OAG-RUD argued that once CenterPoint Gas and Minnesota Limited became affiliated in 2018, CenterPoint Gas had an increased fiduciary duty to expand its competitive bidding process. The agency initially argued that the Commission should not approve the 2019 pipeline installation work on the Company’s metro belt line system.

However, the agency added that if the Commission does approve the metro beltline contract work, any future contracts in which its affiliates are bidders should be conditioned on

CenterPoint Gas improving its procurement processes. The agency asked that the Commission review the Company's withholding of public information regarding the price of contracts with affiliates to ensure that the Company has acted appropriately.

### **III. Commission Action**

The Commission agrees with the Department's assessment that CenterPoint Gas has demonstrated the prudence and reasonableness of having the 2019 construction work on the metro beltline project be conducted by its affiliate—Minnesota Limited. Importantly, the Department recommended appropriate conditions on the contract, recognizing that Minnesota Limited is now an affiliate of CenterPoint Gas. The Commission also agrees with the OAG-RUD that certain additional safeguards to protect ratepayers are warranted in an affiliated entity contract such as this.

And, as it did with the 2018 metro beltline contract approved in Docket G-008/AI-18-517 the Commission will take no action on cost recovery at this time, but will address the recovery of affiliated interest costs in the Company's pending rate case, Docket G-008/GR-19-524. Finally, the Commission will require that the information outlined in its order point two below be filed in this docket as well as the rate case docket.

### **ORDER**

1. CenterPoint Gas's 2019 Metro Beltline Replacement Project construction services contract with Minnesota Limited, LLC, a non-regulated subsidiary of Vectren Corporation is approved.
2. CenterPoint Gas shall file the following information in this docket and in the Company's rate case docket (G-008/GR-19-524) within 30 days of the date of this order:
  - A. a description of any changes in CenterPoint Gas's relationship with Minnesota Limited, its affiliated vendor;
  - B. detail of the actual costs of the scope of work described on pages 4-10 of the 2019 Affiliated Interest Agreement and a comparison of the actual cost of the work to the estimated cost of the work as reported in Exhibit D of the Petition, with an explanation of any significant differences;
  - C. detail of any changes to the scope of work to be performed under the 2019 AIA (e.g. additions via change orders), including:
    - an explanation of what the changes are and why they were necessary;
    - the additional costs associated with the changes, and a demonstration that those additional costs are reasonable.
3. CenterPoint Gas shall propose improved procurement practices in future affiliated interest agreements.

4. The Commission requests comments from parties on the Company adopting improved contractor and construction oversight practices in the future.
5. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Daniel P. Wolf  
Executive Secretary



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