MINNESOTA DEPARTMENT OF COMMERCE

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June 27, 2016

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/PA-16-255

Dear Mr. Wolf:

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

In the Matter of CenterPoint Energy Minnesota Gas' (CenterPoint Energy or the Company) Proposal to Sell Equipment from its Coon Rapids Peaking Plant.

The petition was filed on March 29, 2016 by:

Kevin Marquardt
Regulatory Analyst, Regulatory Services
CenterPoint Energy
505 Nicollet Mall
Minneapolis, Minnesota 55402
612-321-4677

The Department recommends that the Minnesota Public Utilities Commission (Commission) **approve** the sale of the Equipment from its Coon Rapids Peaking Plant and require CenterPoint Energy to file its accounting entries for the Equipment including the entries relating to deferred income tax on the Equipment within 60 days of the close of the transaction.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Public Utility Financial Analyst
651-539-1835

MS/ja
Attachments

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE

DOCKET NO. G008/PA-16-255

I. SUMMARY OF THE PETITION

On March 29, 2016, CenterPoint Energy Minnesota Gas (CenterPoint Energy or the Company) filed a petition pursuant to Minn. Stat. § 216B.50, subd. 1 and Minnesota Rules 7825.1600 to 1800 with the Minnesota Public Utilities Commission (Commission) for approval of the sale and removal of plant equipment (the Equipment) from its Coon Rapids Peaking Plant[1] to LPG Ventures, Kearney, Missouri (LPG Ventures) in the amount of $400,000. CenterPoint Energy stated that the Company retired the plant at the operating facility in June 2013 since it was no longer needed to meet peak winter demand, and reflected the retirement in its 2013 Demand Entitlement Filing (Docket No. G008/M-13-578).[2]

II. DEPARTMENT ANALYSIS

A. STATUTORY REQUIREMENTS

Minn. Stat. §216B.50, subd. 1, governs the Commission's review of the proposed Equipment sale. The applicable part of the statute reads:

> No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of $100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized to do so by the commission. Upon the filing of an application for the approval and consent of the

[1] The Coon Rapids Peaking Plant was placed in service in the 1960s and provided approximately 28,000 Dth/day of peaking capacity for CenterPoint Energy.

[2] Filing, page 8.

> commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

The Department considers the sale of the Equipment from CenterPoint Energy to LPG Ventures to fall under the purview of the Commission, under Minn. Stat. §216B.50 and corresponding Minn. R. 7825.1800. Part (A) of the rule is not applicable because this filing concerns the sale of retired assets and is not a merger or consolidation.[3]

Minnesota Rule 7825.1800(B) states:

> Petitions for approval of a transfer of property shall be accompanied by the following: all information as required in part 7825.1400, items A to J; the agreed upon purchase price and the terms for payment and other considerations.

For parts (C) and (D) of Minn. R. 7825.1800, CenterPoint provided references to its filing where the information is found. The Department notes that part (C) requires the depreciation reserves applicable to the property involved in the transaction. CenterPoint Energy did not provide that information in its filing. As discussed below, the Company provided that information after the Department informally requested it.

Minnesota Rule 7825.1400, items A to J requires the following:

A. A descriptive title.
B. A table of contents.
C. The exact name of the petitioner and address of its principal business office.
D. Name, address, and telephone number of the person authorized to receive notices and communications with respect to the petition.
E. A verified statement by a responsible officer of the petitioner attesting to the accuracy and completeness of the enclosed information.

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[3] Filing, page 5.

F. The purpose for which the securities are to be issued.
G. Copies of resolutions by the directors authorizing the petition for the issue or assumption of liability in respect to which the petition is made; and if approval of stockholders has been obtained, copies of the resolution of the stockholders shall be furnished.
H. A statement as to whether, at the time of filing of the petition, the petitioner knows of any person who is an "affiliated interest" within the meaning of Minnesota Statutes, section 216B.48, subdivision 1, who has received or is entitled to receive a fee for services in connection with the negotiations or consummation of the issuance of the securities, or for services in securing underwriters, sellers, or purchasers of the securities.
I. A signed copy of the opinion of counsel in respect to the legality of the issue or assumption of liability.
J. A balance sheet dated no earlier than six months prior to the date of the petition together with an income statement and statement of changes in financial position covering the 12 months then ended. When the petitions include long-term securities, such statements shall show the effects of the issuance on such balance sheet and income statement.

Regarding the above filing requirements parts A to J, CenterPoint Energy entered a response or reference to its filing for each part of the rule (7825.1400). In response to part H, the Company stated that “No person who is an ‘affiliated interest’ has received or is entitled to receive a fee for services in connection with the negotiations.”[4] For part I, CenterPoint Energy stated “No liability will be issued or assumed as a result of the proposed transaction.”[5] In response to part J, CenterPoint Energy stated that “The Company has not prepared a balance sheet given that the equipment has been retired, removed from rate base, and has no impact on the Company’s balance sheet.”[6] There were no other notable responses.

Based on its review, the Department concludes that CenterPoint Energy substantially provided the required information for Minn. R. 7825.1800 in its filing.

[4] Filing, page 7.
[5] Filing, page 7.
[6] Filing, pages 7- 8.

B. PUBLIC INTEREST

CenterPoint Energy asserted that the sale of the Equipment is consistent with the public interest.[7] The Company retired the plant at the operating facility in June 2013 since it was no longer needed to meet peak winter demand. The Company reflected the retirement of its Plant in its 2013 Demand Entitlement Filing.[8] The Company stated that "As noted in its July 1, 2013 [Demand Entitlement] filing in Docket No. G-008/M-13-578, after careful consideration and analysis, CenterPoint Energy retired the Coon Rapids Peaking Plant because it was in the best interest of customers."[9] In that docket, the Department agreed that CenterPoint Energy's decision to retire the Coon Rapids Peaking Plant was reasonable, that the Coon Rapids town border station had sufficient capacity, and that there should be no need for replacement costs for fuel or facilities.[10] CenterPoint Energy stated that, "This sale will allow CenterPoint Energy to dispose of retired plant that is no longer needed to provide safe and reliable natural gas service to customers."[11] Thus, the Department concludes that no cost/benefit analysis is necessary for the disposal of the retired plant.

Additionally, CenterPoint stated that, "The transaction will not change the operation of CenterPoint Energy or negatively impact the provision of utility [] service to Minnesota customers.[12] Moreover, CenterPoint Energy stated that, "The transaction will not impact or impair in any way effective regulation of CenterPoint Energy which will continue to be subject to the Commission's jurisdiction with respect to public utilities."[13] The Department concurs.

CenterPoint Energy described the bidding for the Equipment sale as follows:[14]

> On August 14, 2015, CenterPoint Energy released a Request for Proposal ("RFP") to sell, dismantle and remove plant equipment at the Coon Rapids Peaking Plant ("Plant") as shown in Appendix A. Subdivision 1. A total of seven entities received the RFP for purchasing, dismantling, and removing the plant. The list of the recipients of the RFP is provided in Appendix E. The RFP was communicated to each recipient electronically through email. Four of the seven entities submitted bids to the Company with LPG Ventures bidding at the highest with a net payment to the Company of $400,000 as shown in Appendix F. CenterPoint Energy notified LPG Ventures that its Proposal was effective November 2, 2015.

[7] Filing, page 10.
[8] Filing, page 9.
[9] Filing, page 10.
[10] The Department's August 19, 2013 Comments, page 4, Docket No. G008/M-13-578.
[11] Filing, page 10.
[12] Filing, page 10.
[13] Filing, page 10.
[14] Filing, page 9.

CenterPoint Energy stated that, "Only the propane tanks from the Coon Rapids Peaking Plant site will be transferred to LPG Ventures under the accepted Proposal."[15] The Company also stated that it is selling the propane tanks under favorable economic terms.[16] LPG Ventures will be responsible to dismantle and remove the tanks from the Coon Rapids Peaking Plant for $400,000.[17] As stated above, LPG Ventures was the highest of four bidders with the net payment to CenterPoint Energy ranging from $252,001 to $400,000.[18] The Department is satisfied with the bidding process and pleased that the bidding resulted in multiple competitive bids for the Equipment and removal.

The Department concludes that the sale of the Equipment to LPG Ventures for $400,000 is consistent with the public interest.

C. ACCOUNTING FOR SALE

On page 10 of its petition, CenterPoint Energy stated that, "The $400,000 net proceeds for this sale will be credited to Accumulated Reserve for Depreciation (General Ledger Account 171010) (FERC 108) and debited to Accounts Payable/Cash."[19]

CenterPoint Energy Appendixes A, B, C, and D show the assets that are covered by the sale. In the Company's Appendix I, *Costs Involved with the Retirement*, the costs are shown as follows:

Plant 3050 (Structures)
- Cost of assets to be retired: $85,305.72[20]
- Estimated removal costs: $20,000.00
- Estimated salvage proceeds $0

Plant 3110 (LP Gas Equipment)
- Cost of assets to be retired: $478,247.11
- Estimated removal costs: $ 80,000.00
- Estimated salvage proceeds: $500,000.00

As stated above, Minn. R. 7825.1800, pt. (C) requires the depreciation reserves applicable to the property involved in the transaction.[21] CenterPoint Energy did not provide that information in its filing. The above cost of assets was stated at the gross

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[15] Filing, page 9.
[16] Filing, page 10.
[17] *Id.*
[18] CenterPoint Energy provided a list of the bids received in its Appendix F.
[19] *Id.*
[20] A list of the assets to be retired of $85,305.72 is shown in CenterPoint Energy's Appendix H.
[21] Part (C) reads, in part, "A description of the property involved in the transaction including any franchises, permits, or operative rights, and the original cost of such property, individually or by class, the depreciation and amortization reserves applicable to such property, individually or by class."

or initial cost of the assets. The Department requested the accumulated depreciation in an e-mail to Company personnel. For Plant 3050, the original cost of the assets was $85,305.72 and the accumulated depreciation was $82.991.91 resulting in a net book value of $2,313.81.[22] For Plant 3110, the original cost of the assets was $478,247.11 and the accumulated depreciation was $738,310.13 resulting in a net book value of negative $260,063.02.

CenterPoint Energy explained that when the assets are retired, the following transactions will occur:

Asset retirement

- The cost of the assets to be retired will be credited to Plant in Service (General Ledger Account 163010) (FERC 101) and debited to the Accumulated Reserve for Depreciation (General Ledger Account 171010) (FERC 108)

Removal costs

- The removal costs will be debited to the Accumulated Reserve for Depreciation (General Ledger Account 171010) (FERC 108) and credited to Accounts Payable/Cash

Salvage proceeds

- The salvage proceeds will be credited to the Accumulated Reserve for Depreciation (General Ledger Account 171010) (FERC 108) and debited to Accounts Payable/Cash

Asset retirement

- The salvage amounts will be credited to the Accumulated Reserve for Depreciation (General Ledger Account 171010) (FERC 108) and debited to Accounts Receivable/Cash.

According to the Company, the last bullet above should have been deleted because it is incorrect. Additionally, the Department notes that CenterPoint Energy did not mention in its filing the accounting for deferred tax upon retirement of the Equipment.

The Structures and LP Gas Equipment account numbers 3050 and 3110, respectively, have sufficient dollar balances such that the proposal to credit the reserves will be absorbed and

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[22] In its June 24, 2016 e-mail response, the Company noted that, "CenterPoint Energy does not depreciate individual assets, so the values represented for depreciation are a reasonable estimate of the depreciation taken on those specific assets."

not have to be distributed to other accounts.[23] The Department concludes that CenterPoint Energy's accounting for the sale is appropriate and consistent with Commission precedent.[24]

The Project Schedule states that:[25]

> The Agreement resulting from this RFP is subject to the approval of the Minnesota Public Utilities Commission. Such approval will be required prior to Purchaser starting any work. Upon execution of an Agreement with the successful bidder CenterPoint Energy will request approval of the Agreement from the Minnesota Public Utilities Commission. The approval process is expected to take up to 240 days.

CenterPoint Energy expects the purchaser to complete its work by December 15, 2016. Since the work has not yet started, the Department recommends that the Commission require the Company to file its accounting entries for the Equipment, including the entries relating to deferred income tax on the Equipment, within 60 days of the close of the transaction.

III. RECOMMENDATION

The Department concludes that:

- the sale of the of the Equipment to LPG Ventures for $400,000 is consistent with the public interest; and
- CenterPoint Energy's proposed accounting treatment for the sale is appropriate and consistent with Commission precedent.

The Department, therefore, recommends that the Commission approve the sale of the Equipment from its Coon Rapids Peaking Plant and require CenterPoint Energy to file its accounting entries for the Equipment, including the entries relating to deferred income tax on the Equipment, within 60 days of the close of the transaction.

/ja

[23] See CenterPoint Energy's most recent depreciation study filed in Docket No. G008/D-14-599.
[24] For example, see Docket Nos. E002/PA-08-523, E017/PA-11-309, and G002/PA-11-902.
[25] CenterPoint Energy's Appendix A.

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/PA-16-255

Dated this 27th day of June 2016

/s/Sharon Ferguson

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