

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

**STATEMENT OF INTENT OF §
CENTERPOINT ENERGY RESOURCES §
CORP. D/B/A CENTERPOINT ENERGY §
ENTEX AND CENTERPOINT ENERGY § GAS UTILITIES DOCKET
TEXAS GAS TO INCREASE RATES ON § No. 9902 (Consolidated)
A DIVISION-WIDE BASIS IN THE §
HOUSTON DIVISION §**

FINAL ORDER

Notice of Open Meeting to consider this Order was duly posted with the Secretary of State within the time period provided by law pursuant to Tex. Gov't Code Ann. Chap 551, et seq. (Vernon 2004 & Supp. 2008). The Railroad Commission adopts the following findings of fact and conclusions of law and orders as follows:

FINDINGS OF FACT

1. CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas ("CenterPoint") is a gas utility as that term is defined in the Texas Utility Code.
2. On July 31, 2009, CenterPoint filed a *Statement of Intent* to increase rates on a division-wide basis in the Houston Division.
3. The implementation of the proposed rates were suspended on August 18, 2009.
4. The Houston Division includes areas in Fort Bend, Harris, Montgomery and Walker counties and provides natural gas service within the following municipalities: Bellaire, Bunker Hill Village, Conroe, Cut and Shoot, Deer Park, Galena Park, Hedwig Village, Hillshire Village, Houston, Humble, Hunters Creek Village, Jacinto City, Jersey Village, La Porte, Meadows Place, Missouri City, Nassau Bay, New Waverly, Oak Ridge North, Panorama, Pasadena, Piney Point, Roman Forest, Sugar Land, Shenandoah, South Houston, Southside Place, Spring Valley, Stafford, Webster, West University Place, and Willis.
5. CenterPoint also filed a Statement of Intent to increase rates in those jurisdictions affected by the proposed rate increase on July 31, 2009.
6. The Commission has jurisdiction over CenterPoint and over the matters at issue in this proceeding pursuant to *Tex. Util. Code Ann.* §§ 102.001, 103.003, 103.051, 104.001, 121.051, 121.052, and 121.151 (Vernon 2008). The statutes and rules involved in this proceeding include, but are not limited to *Tex. Util. Code Ann.* §§

- 104.101, 104.102, 104.103, 104.105, 104.106, 104.107, 104.110, 104.301, and 16 *Tex. Admin. Code* Chapter 7.
7. Notice of the proposed increase was published on August 15, 2009, August 18, 2009, August 25, 2009, and September 1, 2009.
 8. The cities of Galena Park, Jacinto City, Southside Place, and West University ceded their original jurisdiction to the Commission pursuant to GURA § 103.003(a).
 9. The Cities of Hedwig Village and Hunters Creek Village denied the proposed rate increase and CenterPoint appealed. That case was docketed as GUD No. 9908, *Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas, from the Actions of the Cities of Hedwig Village and Hunters Creek Village*.
 10. The cities of Bunker Hill Village, Conroe, Hillshire Village, Houston, Humble, Jersey Village, Nassau, Piney Point Village, Pasadena, Shenandoah, Spring Valley Village, and Stafford denied the proposed increase. CenterPoint appealed and that case was docketed as GUD No. 9929, *Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas from the actions of Bunker Hill Village, Conroe, Hillshire Village, Houston, Humble, Jersey Village, Nassau Bay, Piney Point Village, Pasadena, Shenandoah, Spring Valley Village, and Stafford*.
 11. The cities of Deer Park, Meadows Place and Missouri City also denied the proposed increase and CenterPoint filed an appeal that was docket as GUD No. 9941, *Appeal of CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas from the actions of Deer Park, Meadows Place, and Missouri City*.
 12. GUD Nos. 9908, 9929, and 9941 were consolidated into this proceeding, GUD No. 9902.
 13. The following entities intervened in this proceeding: The City of Houston and the Houston Coalition of Cities (“City of Houston/Houston Coalition” or “COH/HCC”) representing the City of Houston, the City of Deer Park, the City of Pasadena, the City of Humble, and the City of Meadows Place; the Gulf Coast Coalition of Cities (“GCCC”) representing Bunker Hill Village, Jersey Village, Nassau Bay, Shenandoah, and Spring Valley Village; the Steering Committee of Cities (“SCC”) representing the City of Conroe and the City of Oak Ridge North; the State of Texas (“State”) and Staff of the Railroad Commission (“Staff”).
 14. The hearing in this matter commenced on November 4, 2009, and was concluded on November 6, 2009.

15. On October 14, 2009, the Commission issued an Interim Order and ruled as follows:
 - a. The issue of whether a utility may seek system-wide rates shall not be litigated in this proceeding. The ruling, however, did not preclude litigation regarding whether CenterPoint has established that system-wide rates are appropriate for the Houston Division.
 - b. For purposes of 16 Tex. Admin. Code § 7.5519(a) an uncollectible gas cost is a “gas cost.” CenterPoint must establish, however, that it is reasonable for it to recover the gas cost portion of uncollectible expenses through its purchase gas adjustment clause.
 - c. Issues related to the federal income tax rate to be applied in this proceeding shall be precluded from further litigation. The ruling, however, did not preclude litigation of other calculations used to arrive at the proposed allowance for federal income taxes.
 - d. Rate cases expense will be considered by the Commission in accordance with Tex. Util. Code Ann. § 103.022 and §104.008 (Vernon 2008), and Tex Admin. Code § 7.5530, in a separate proceeding.
16. The Commission also determined that it shall consider directly any issues related to the prudence of the company’s gas costs.

Rate Base

17. CenterPoint’s proposed level of adjusted rate base is not reasonable.
18. The *Statement of Intent* filed included a rate base requested based upon the test-year period ending March 31, 2009, adjusted for construction work in progress and *pro-forma* adjustments through March 31, 2010.
19. Consistent with prior Commission determinations, and as established through the evidence presented in this case, a *pro-forma* adjustment is merely an estimate of investments that may be made at some time in the future, and is not reasonable.
20. There was no evidence presented that the *pro-forma* adjustments in the initial filing were known and measurable.
21. CenterPoint filed an update to its initial rate increase request based upon the test-year period ending September 30, 2009.

22. The updated filing was made on October 29, 2009, after prefiled direct testimony regarding the initial *Statement of Intent* was filed, and three working days prior to the commencement of the hearing.
23. As of October 16, 2009, CenterPoint had not closed its books and records for the month of September 2009.
24. No workpapers were provided in support of the October 29, 2009, update and plant in service was revised to include an expenditure in the amount of \$3,679,892, that had not been included in the original *Statement of Intent*.
25. The parties have not had adequate time in this case to evaluate the updated filing prior to the commencement of the hearing.
26. An adjustment to the test-year ended March 31, 2009, for known and measurable changes updated for CWIP that had been placed in service through June 30, 2009, is reasonable and all parties have had an opportunity to review those figures.
27. Based on a test-year ended March 31, 2009, adjusted for known and measurable changes through June 30, 2009, a total original cost of \$867,477,455, a total reserve for depreciation of \$430,343,142, and a total net plant of \$367,489,848 is just and reasonable.
28. The removal of storage gas from rate base is reasonable.
29. CenterPoint has not established that a cash working capital requirement of \$2,151,434 is just and reasonable.
30. CenterPoint has not established that its proposed collection lag is just and reasonable.
31. Factoring accounts receivables reduces collection lag.
32. CenterPoint factors accounts receivable and the factoring arrangement entitled, *Accounts Receivables Factoring Arrangement*, is not reflected in its calculation of the collection lag.
33. The factoring arrangement with its affiliate deprives the Houston Division of any benefits related to factoring and is not reasonable.
34. Evidence in the record established that CenterPoint has the ability to factor between 27.35 to 65.03 percent of its accounts receivable.
35. It is reasonable to consider a factoring arrangement wherein 27.35% of the accounts receivable are factored and that the costs associated with that level of factoring in the amount of \$23,139 is just and reasonable.

36. A factoring arrangement with zero days indicates that there is no lag in the factoring transaction and is, therefore, not reasonable.
37. A factoring arrangement with one day indicates that there is a one day lag in the factoring transaction and is reasonable.
38. The billing process proposed by the company is approximately six days for residential and commercial customers.
39. CenterPoint has not established that the billing process requires a full six days and evidence in the record established that the company was able to process bills within three days of the meter reading date and that other utilities have a shorter billing lag of 1.36 or 2.72 days.
40. A billing lag of approximately three days, or 2.88 days is reasonable.
41. The billing process is reasonable and six days to accomplish those tasks is not just and reasonable.
42. CenterPoint has established that a gas expense lead of 40.56 days is reasonable.
43. Adjusting the gas expense lead calculation for bills paid before the due date is not necessary as early payment may result in benefits to the utility.
44. CenterPoint has established that the O&M Labor lead of 25.56 is reasonable.
45. The proposed adjustment to the company's proposed vacation lead of 194.56 vacation days based upon an assumption that vacation is not taken evenly throughout the year is not supported by empirical evidence nor is a vacation lead of three and a half years supported by empirical evidence. CenterPoint has established that the company's proposed vacation lead is reasonable.
46. CenterPoint has not established that its proposed expense lead of 29.24 days for O&M Non Labor was just and reasonable. CenterPoint was not able to produce the underlying invoices to establish the reasonableness of its calculation. The sample selected to calculate the expense lead failed to properly recognize payment terms associated with numerous invoices. CenterPoint failed to recognize the comparable service periods identified in other invoices. CenterPoint failed to correctly capture the service period reflected on certain invoices. An expense lead of 32.27 days is just and reasonable.
47. The expense lead proposed by CenterPoint for Taxes Other than Income Taxes of 42.95 days is just and reasonable and is not disputed by the parties to this proceeding.

48. CenterPoint's proposal for 37.25 day expense lead for federal income taxes is just and reasonable as it is consistent with the requirements of the Internal Revenue Service and precedent of the Railroad Commission.
49. A negative cash working capital in the amount of \$10,496,886 is just and reasonable.
50. An accumulated deferred income tax debit should not be included in the calculation of rate base unless the revenue that gave rise to the tax liability has been deducted from rate base.
51. Ratepayers provided the fund for the reserve and the funds from the reserve are available to the utility.
52. Including the associated accumulated deferred income tax debit imposes a carrying charge on funds the ratepayer has provided.
53. The reserve for total miscellaneous expense (Bad Debt) has not been deducted from rate base and it is not reasonable to include an accumulated deferred income tax debit in rate base for the tax liability associated with this reserve.
54. The reserve for total employee benefit accruals has not been deducted from rate base and it is not reasonable to include an accumulated deferred income tax debit in rate base for the tax liability associated with this reserve.
55. The reserve for rate case expense has not been deducted from rate base and it is not reasonable to include an accumulated deferred income tax debit in rate base for the tax liability associated with this reserve.
56. CenterPoint established that ratepayers have not previously provided the reserve for deferred State Income Taxes and it is reasonable to include an accumulated deferred income tax debit in rate base for the tax liability associated with this reserve.
57. A total net accumulated reserve income tax of \$51,279,950 based upon the test year ended March 31, 2009, is just and reasonable.

Expenses

58. CenterPoint has not established that a proposed base payroll amount of \$31,486,917 is just and reasonable.
59. CenterPoint refused to provide data related to the number of vacancies. That data is necessary to verify CenterPoint's post test-year adjustment.
60. The base payroll for the test-year ended March 31, 2009, in the amount of \$31,029,034 is just and reasonable. Any attempt to adjust that figure through March 31, 2010, is not known and measurable and is speculative.
61. Merit increases reflected in the test-year level of payroll are just and reasonable. Removal of those amounts would reduce the base payroll level below test-year levels for the test year ended March 31, 2009.
62. CenterPoint based its level of overtime expense on test-year levels for the test-year ended March 31, 2009. The test-year level of overtime expense is consistent with the levels experienced from 2005 through 2009, and was lower than the overtime expenses experienced in 2006.
63. CenterPoint established that expenses related to incentive compensation plans, long-term incentive and short-term incentive, are just and reasonable. The plans included customer oriented goals related to the following: (1) phone responses, (2) customer satisfaction surveys, (3) resource utilization, (4) recordable incident rate, (5) lost time incident rate, (6) preventable vehicle incident rate.
64. An adjustment to the test-year level of sick leave is not just and reasonable.
65. A reduction to the payroll expense requires an adjustment to expenses related to CenterPoint's employee savings plan and to payroll taxes.
66. CenterPoint proposed an adjustment to the medical expenses determined for the test year ended March 31, 2009. The proposed adjustment totaled \$1,430,421 and was based upon a methodology that focused upon the highest monthly expenses for medical expenses. The first quarter of the year generally has the highest level of medical expenses as established by examining data for the period from 2006 through 2009. An adjustment based upon the historical average from January 2006 through June 2009 is reasonable and the test-year level of medical expenses should be adjusted no more than \$418,191.
67. The pension expense for the test-year ended March 31, 2009, was \$836,915. CenterPoint proposed a post test-year adjustment of \$4,549,789. The proposed adjustment is not just and reasonable.

68. The proposed adjustment to pension expense was the result of a projected benefit obligation that is not known and measurable. Improvements in the economy will change the benefit obligation and CenterPoint has not taken this into account.
69. The proposed adjustment to pension expense places the entire burden of the loss on the ratepayer, even though CenterPoint manages the funds and decisions made by the utility compounded the losses experienced in the fund.
70. An adjustment to the test-year level of pension expense in the amount of \$1,208,913 for the Houston Division is just and reasonable and an adjustment to the test-year level of pension expense for Corporate Support Services identified by CenterPoint in the amount of \$368,148 is just and reasonable.
71. The post-retirement expense for the test year ended March 31, 2009 was \$2,084,924 and CenterPoint proposed an adjustment of \$528,153.
72. The proposed post test-year adjustment is not just and reasonable as the adjustment is not known and measurable and would raise the post retirement expenses to a level not realized since March 2006, including the monthly amount recorded for the test year through June 2 2009.
73. An adjustment test-year expense related to post-retirement expense in the amount of \$145,806 is just and reasonable.
74. The post-employment benefits expense for the test-year ended March 31, 2009, was \$176,950. CenterPoint's proposal to adjust this level of expense by \$514,974 is not just and reasonable. The adjustment was based on the quarter of the year that exhibited the highest level of expense in this category.
75. An adjustment to post-employment benefits expense based upon the expense for the period from January 2006 through June 2009 is just and reasonable and therefore, an adjustment in the amount of \$57,488 to the test-year level of expense is reasonable.
76. CenterPoint established that it incurred reasonable and necessary expenses to respond to Hurricane Ike in the amount of \$2,571,915. The amounts to be recovered from insurance claims have not been finalized and it is reasonable to establish a separate tariff to allow recovery of those reasonable expenses minus amounts recovered from the company's insurance carrier.
77. CenterPoint has established that the utility's test-year level of expense for gasoline expenses for the test year ended March 31, 2009, is just and reasonable. There is no method for accurately determining the future price of gasoline and an adjustment is not known and measurable.

78. CenterPoint has not established that an adjustment for test-year levels of general liability, workers compensation, and auto liability is just and reasonable. As to workers compensation, CenterPoint has not established that injuries and damages expense should include amounts for workers compensation claims as those claims have been paid by the company's insurance carrier. Centerpoint provided no explanation as to why those expense are included in the utility's cost of service calculation. As to general liability claims and auto liability claims the proposed adjustment based upon a ten-year normalization is not just and reasonable.
79. The record indicates that the level of uncollectible expense may be impacted by the Houston Division's factoring arrangement, although the exact impact has not been quantified. Nevertheless, once the proposed level of bad debt expense is corrected to remove an error in the amount of \$63,761, CenterPoint has established that its level of uncollectible expense is just and reasonable.
80. Services are provided to the Houston Division from an affiliate, CenterPoint Energy Services Company.
81. CenterPoint established that except to the extent adjusted in the foregoing findings of fact the services provided by the affiliate are reasonable and necessary and its allocation of costs from the affiliate are just and reasonable and ensure that those expenses are reasonable and necessary and that the price charged to the Houston Division are no higher than the prices charged by the supplying affiliate to its other affiliates or divisions, or to a non-affiliated person for the same item or class of items.
82. Expect for issues related to factoring of accounts receivable, CenterPoint has established that the expenses related to corporate services charges to FERC account 903 are just and reasonable and recent increases are due in part to increases in the volume and the average length of calls.

Depreciation Expense

83. CenterPoint has not established that the depreciation expense for Account 392 is just and reasonable. CenterPoint accounts for trailers in FERC Account 396. Proper accounting requires that the expenses be booked to Account 392 and would impact the depreciation expense for that account. An eight-year service life for Account 392 and a depreciation rate of 12.5% is just and reasonable.
84. The depreciation rates proposed for Account 303.01 and Account 303.02 are just and reasonable.
85. CenterPoint has established that the adjustments to excess accumulated depreciation are just and reasonable.

Taxes

86. CenterPoint has not established that its proposed adjustment to the test-year level of expense for *ad valorem* taxes is known and measurable.

Rate of Return

87. A capital structure of 44.40% debt and 55.60% equity is just and reasonable.
88. A cost of debt of 6.334% is just and reasonable.
89. The current economic conditions have affected all industries adversely, including the utility industry.
90. A return on equity of 10.5% is just and reasonable.

Service Charges

91. CenterPoint established that the proposed service charge of \$47.00 for after-hours service calls was just and reasonable but has not added revenues to be generated from the service charge. The proposed service charge will increase miscellaneous service revenue by \$57,380.

Allocation

92. The proposed minimum system study based upon two-inch pipe is just and reasonable and consistent with precedent of the Railroad Commission.
93. The allocation methodology based upon a design day study is just and reasonable and consistent with precedent of the Railroad Commission.

Rate Design

94. CenterPoint established that the proposed billing determinants are just and reasonable. Although the number of customers continue to increase from year to year, the size of that increase has diminished and a downward adjustment to the billing determinants is reasonable.
95. Residential rates, as shown on the attached rate schedule, consisting of a monthly customer charge of \$13.54 and volumetric charges of \$0.0308 per Ccf on all gas volumes, are reasonable.
96. General Service-Small rates, as shown on the attached rate schedule, consisting of a monthly customer charge of \$14.59 and volumetric charges of \$0.0403 per Ccf on all gas volumes are just and reasonable.

97. General Service-Large rates, as shown on the attached rate schedule, consisting of a monthly customer charge of \$191.00 and volumetric charges of \$0.0554 per Ccf on all gas volumes are just and reasonable.
98. CenterPoint has established that its proposed change to the tax adjustment tariffs and the proposed treatment of franchise fees is just and reasonable:
 - a. In the Houston Division most of the delivery points are outside the city limits and the environs customers do not share in the revenues generated by the municipal franchise fees.
 - b. The proposed change assures transparency and that the recovery of franchise fees is accurate and will not result in an over recovery or under-recovery.
 - c. The proposed change is consistent with precedent of the Railroad Commission of Texas.
99. As a result of the requested change to the recovery of franchise fees it is reasonable to require that CenterPoint file as part of its tariff filing a current listing of each municipality and applicable franchise fee as reflected in the attached tariffs.
100. CenterPoint has established that it is just and reasonable to recover a carrying cost for its investment in gas storage through the Purchase Gas Adjustment Clause and that it is reasonable to recover a carrying charge at the pre-tax rate of return of 11.7940%.
101. CenterPoint has not established that it is reasonable for it to recover the gas cost portion of uncollectible expense through the Purchase Gas Adjustment Clause as it has not accounted for the impact of factoring and it has not established that proper reporting mechanisms are in place to track those expenses.
102. CenterPoint has established that the carrying cost on the over or under recovery of gas cost should be set at six percent.

103. CenterPoint has indicated its intent to cease hedging gas costs through the use of financial instruments. Accordingly, it is reasonable to amend the current Purchase Gas Adjustment Clause to reflect this change as follows:

The cost of natural gas shall include the cost of gas supplies purchased for resale hereunder, upstream transportation charges, storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by the Company to stabilize prices, *provided such financial instruments were entered into prior to September 30, 2009 and were in effect as of February 1, 2010. Expenses related to the use of various financial instruments used by the Company to stabilize prices shall not be included in the purchase gas adjustment clause after December 31, 2012.*

104. Additionally, CenterPoint is directed to continue filing its annual report outlining its Gas Procurement Plan and an annual report analyzing its results from its hedging practices.
105. The rates reflected in the attached schedules are just and reasonable.

CONCLUSIONS OF LAW

1. CenterPoint Energy Entex (CenterPoint) is a “Gas Utility” as defined in Tex. Util. Code Ann. §101.003(7) (Vernon 2007) and §121.001(2009) and is therefore subject to the jurisdiction of the Railroad Commission (Commission) of Texas.
2. The Railroad Commission of Texas (Commission) has jurisdiction over CenterPoint and CenterPoint’s *Statement of Intent* and appeals under Tex. Util. Code Ann. §§ 102.001, 103.022, 103.054, & 103.055, 104.001, 104.001 and 104.201 (Vernon 2007).
3. Under Tex. Util. Code Ann. §102.001 (Vernon 2007), the Commission has exclusive original jurisdiction over the rates and services of a gas utility that distributes natural gas in areas outside of a municipality and over the rates and services of a gas utility that transmits, transports, delivers, or sells natural gas to a gas utility that distributes the gas to the public.
4. This Statement of Intent and Appeals were processed in accordance with the requirements of the Gas Utility regulatory Act (GURA), and the Administrative Procedure Act, Tex. Gov’t Code ANN. §§2001.001-2001.902 (Vernon 2000 and Supp. 2009) (APA).
5. In accordance with the stated purpose of the Texas Utilities Code, Subtitle A, expressed under Tex. Util. Code Ann. §101.002 (Vernon 2007), the Commission

- has assured that the rates, operations, and services established in this docket are just and reasonable to customers and to the utilities.
6. Tex. Util. Code Ann. §104.107 (Vernon 2007) provides the Commission's authority to suspend the operation of the schedule of proposed rates for 150 days from the date the schedule would otherwise go into effect.
 7. The proposed rates constitute a major change as defined by Tex. Util. Code Ann. §104.101 (Vernon 2007).
 8. In accordance with Tex. Util. Code §104.103 (Vernon 2007), 16 Tex. Admin. Code Ann. §7.230 (2008), and 16 Tex. Admin. Code Ann. § 7.235 (2008), adequate notice was properly provided.
 9. In accordance with the provisions of Tex. Util. Code Ann. §104.102 (Vernon 2007 and Supp. 2009), 16 Tex. Admin. Code Ann. §7.205 (2008), and 16 Tex. Admin. Code §7.210 (2008), CenterPoint filed its Statement of Intent to change rates.
 10. CenterPoint failed to meet its burden of proof in accordance with the provisions of Tex. Util. Code Ann. §104.008 (Vernon 2007) on the elements of its requested rate increase identified in this order.
 11. The rates proposed by CenterPoint are in accordance with Tex. Util Code Ann. §104.006 (Vernon 2007) because the rates established for customers of each environs area do not exceed 115 percent of the average of all rates for similar services for all municipalities served by CenterPoint in the same county.
 12. The revenue, rates, rate design, and service charges proposed by CenterPoint are not found to be just and reasonable, not unreasonably preferential, prejudicial, or discriminatory, and are not sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code Ann. §104.003 (Vernon 2007).
 13. The revenue, rates, rate design, and service charges proposed by CenterPoint, as amended by the Commission and identified in the schedules attached to this order, are just and reasonable, are not unreasonably preferential, prejudicial, or discriminatory, and are sufficient, equitable, and consistent in application to each class of consumer, as required by Tex. Util. Code Ann. §104.003 (Vernon 2007).
 14. The overall revenues as established by the findings of fact and attached schedules are reasonable; fix an overall level of revenues for CenterPoint that will permit the company a reasonable opportunity to earn a reasonable return on its invested capital used and useful in providing service to the public over and above its reasonable and necessary operating expenses, as required by Tex. Util. Code Ann.

- § 104.051 (Vernon 2007); and otherwise comply with Chapter 104 of the Texas Utilities Code.
15. The revenue, rates, rate design, and service charges proposed will not yield to CenterPoint more than a fair return on the adjusted value of the invested capital used and useful in rendering service to the public, as required by Tex. Util. Code Ann. § 104.052 (Vernon 2007).
 16. The rates established in this docket comport with the requirements of Tex. Util. Code Ann. §104.053 (Vernon 2007) and are based upon the adjusted value of invested capital used and useful, where the adjusted value is a reasonable balance between the original cost, less depreciation, and current cost, less adjustment for present age and condition.
 17. The rates established in this case comply with the affiliate transaction standard set out in Tex. Util. Code Ann. § 104.055 (Vernon 2007). Namely, in establishing a gas utility's rates, the regulatory authority may not allow a gas utility's payment to an affiliate for the cost of a service, property, right or other item or for an interest expense to be included as capital cost or an expense related to gas utility service except to the extent that the regulatory authority finds the payment is reasonable and necessary for each item or class of items as determined by the regulatory authority. That finding must include (1) a specific finding of reasonableness and necessity to each class of items allowed; and (2) a finding that the price to the gas utility is not higher than the prices charged by the supplying affiliate to its other affiliates or divisions or to a nonaffiliated person for the same item or class of items.
 18. In accordance with Tex. Util. Code Ann. §104.054 (Vernon 2007) and Tex. Admin. Code §7.5252, book depreciation and amortization was calculated on a straight line basis over the useful life expectancy of CenterPoint's property and facilities.
 19. In this proceeding, CenterPoint has the burden of proof under Tex. Util. Code Ann. §104.008 (Vernon 2007) to show that the proposed rate changes are just and reasonable.
 20. Rate case expenses for GUD No. 9902 will be considered by the Commission in accordance with Tex. Util. Code Ann. §104.008 (Vernon 2007), and 16 Tex. Admin. Code §7.5530 (2008), in a separate proceeding.
 21. It is reasonable for the Commission to allow CenterPoint to include a Purchased Gas Adjustment Clause in its rates to provide for the recovery of all of its gas costs, in accordance with 16 Tex. Admin. Code § 7.5519 (2008).
 22. All expenses for lost and unaccounted for gas in excess of 5.0 percent shall be disallowed, consistent with Tex. Admin. Code § 7.5519 (2008).

23. CenterPoint is required by 16 Tex. Admin. Code §7.315 (2008) to file electronic tariffs incorporating rates consistent with this Order within thirty days of the date of this Order.
24. CenterPoint is required by 16 Tex. Admin. Code § 7.310 to utilize the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts (USOA) prescribed for natural gas companies.

IT IS THEREFORE ORDERED that CenterPoint's proposed schedule of rates is hereby **DENIED**.

IT IS FURTHER ORDERED that the rates, rate design, and service charges established in the findings of fact and conclusions of law and shown on the attached Schedules for CenterPoint are **APPROVED**.

IT IS FURTHER ORDERED that CenterPoint properly book assets in FERC accounts 396 and 392.

IT IS FURTHER ORDERED that, in accordance with 16 Tex. Admin. Code §7.315, within 30 days of the date this Order is signed, CenterPoint shall file tariffs with the Gas Services Division. The tariffs shall incorporate rates, rate design, and service charges consistent with this Order, as stated in the findings of fact and conclusions of law and shown on the attached Schedules.

IT IS FURTHER ORDERED that all proposed findings of fact and conclusions of law not specifically adopted in this Order are hereby **DENIED**. **IT IS ALSO ORDERED** that all pending motions and requests for relief not previously granted or granted herein are hereby **DENIED**.

IT IS FURTHER ORDERED THAT within 30 days of this order CenterPoint **SHALL** electronically file tariffs and rate schedules in proper form that accurately reflect the rates approved by the Commission in this Order.

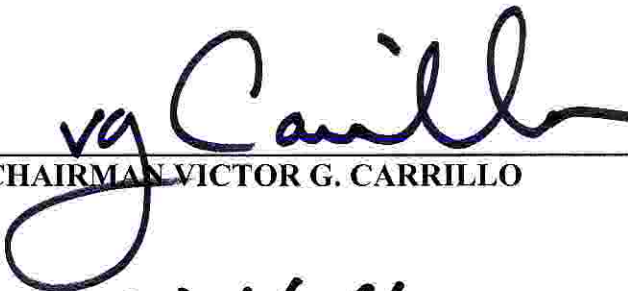
This Order will not be final and effective until 20 days after a party is notified of the Commission's order. A party is presumed to have been notified of the Commission's order three days after the date on which the notice is actually mailed. If a timely motion for rehearing is filed by any party of interest, this order shall not become final and effective until such motion is overruled, or if such motion is granted, this order shall be

subject to further action by the Commission. Pursuant to Tex. Gov't Code §2001.146(e), the time allotted for Commission action on a motion for rehearing in this case prior to its being overruled by operation of law, is hereby extended until 90 days from the date the order is served on the parties.

All requested findings of fact and conclusions of law which are not expressly adopted herein are denied. All pending motions and requests for relief not previously granted or granted herein are denied.

SIGNED this 23rd day of February, 2010.


RAILROAD COMMISSION OF TEXAS


CHAIRMAN VICTOR G. CARRILLO


COMMISSIONER ELIZABETH A. JONES


COMMISSIONER MICHAEL L. WILLIAMS

ATTEST:


SECRETARY

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION
RATE SHEET
GENERAL SERVICE-SMALL
RATE SCHEDULE NO. _____**

APPLICATION OF SCHEDULE

This schedule is applicable to natural gas service to any customer engaging in any business, professional or institutional activity, for all uses of gas, including cooking, heating, refrigeration, water heating, air conditioning, and power.

This schedule is applicable to any general service customer for commercial uses and industrial uses, except standby service, whose average monthly usage for the prior calendar year is 150,000 cubic feet or less. Natural gas supplied hereunder is for the individual use of the customer at one point of delivery and shall not be resold or shared with others.

MONTHLY RATE

For bills rendered on and after the effective date of this rate schedule, the monthly rate for each customer receiving service under this rate schedule shall be the sum of the following:

- (a) The Base Rate consisting of:
 - (1) Customer Charge – \$14.59;
 - (2) Commodity Charge –
All Ccf \$0.0403 per Ccf
- (b) Tax Adjustment – The Tax Adjustment will be calculated and adjusted periodically as defined in the Company's applicable Tax Adjustment Rate Schedule and applicable Franchise Fee Adjustment Rate Schedule.
- (c) Gas Cost Adjustment – The applicable Purchased Gas Adjustment (PGA) Rate – as calculated on a per Ccf basis and adjusted periodically under the applicable Purchased Gas Adjustment (PGA) Rate Schedule – for all gas used.

Payment

Due date of the bill for service shall not be less than 15 days after issuance or such other period of time as may be provided by order of the regulatory authority. A bill for utility service is delinquent if unpaid by the due date.

RULES AND REGULATIONS

Service under this schedule shall be furnished in accordance with the Company's General Rules and Regulations, as such rules may be amended from time to time. A copy of the Company's General Rules and Regulations may be obtained from Company's office located at 1111 Louisiana Street, Houston, Texas.

**CENTERPOINT ENERGY RESOURCES CORP.
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AND CENTERPOINT ENERGY TEXAS GAS
HOUSTON DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. _____**

AVAILABILITY

This schedule is available at points on existing facilities of adequate capacity and suitable pressure in the area designated in the Rate Book of **CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX AND CENTERPOINT ENERGY TEXAS GAS** (hereinafter called "Company").

APPLICATION OF SCHEDULE

This schedule is applicable to any general service customer for commercial uses and industrial uses whose average monthly usage for the prior calendar year is more than 150,000 cubic feet. Gas supplied hereunder is for the individual use of the Consumer at one point of delivery and shall not be resold or shared with others. If the Consumer has a written contract with Company, the terms and provision of such contract shall be controlling.

MONTHLY RATE

For bills rendered on and after the effective date of this rate schedule, the monthly rate for each customer receiving service under this rate schedule shall be the sum of the following:

(a) The Base Rate consisting of:

- (1) Customer Charge – \$191.00;
- (2) Commodity Charge –
All Ccf \$0.0554 per Ccf

(b) Tax Adjustment – The Tax Adjustment will be calculated and adjusted periodically as defined in the Company's applicable Tax Adjustment Rate Schedule and applicable Franchise Fee Adjustment Rate Schedule.

(c) Gas Cost Adjustment – The applicable Purchased Gas Adjustment (PGA) Rate – as calculated on a per Mcf basis and adjusted periodically under the applicable Purchased Gas Adjustment (PGA) Rate Schedule – for all gas used.

WRITTEN CONTRACT

In order to receive a delivery from Company of more than 25 Mcf during any one day, the Consumer must execute a written contract with Company on Company's form of contract covering the sale of gas by Company to it. In the case of existing Consumers, the maximum gas usage during any one day shall be obtained from the records of the Company, except in cases where the existing Consumer will be purchasing increased volumes of gas from Company because of expansions or for any other reasons, in which event the Company may estimate usage by such Consumer. Also in the case of new Consumers, the Company may estimate usage by the Consumer. Any such estimates made by Company shall be binding on Consumer in determining whether or not a contract is required. Such written contract shall be executed by Consumer upon request of Company and Company shall not be obligated to serve any such Consumer more than 25 Mcf during any one day until such written contract is executed and delivered by Consumer.

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RATE SCHEDULE NO. _____**

MEASUREMENT

The term "cubic foot of gas" for the purpose of measurement of the gas delivered and for all other purposes is the amount of gas necessary to fill a cubic foot of space when the gas is at an absolute pressure of 14.95 pounds per square inch and at a base temperature of sixty (60) degrees Fahrenheit.

The term "Mcf" shall mean 1,000 cubic feet of gas.

The Sales Unit shall be one Mcf.

Assumed Atmospheric Pressure - The average atmospheric pressure shall be assumed to be fourteen and seven-tenths (14.7) pounds per square inch, irrespective of actual elevation or location of the point of delivery above sea level or variation in such atmospheric pressure from time to time.

Orifice Meters - When orifice meters are used for the measurement of gas, such orifice meters shall be constructed and installed, and the computations of volume made, in accordance with the provisions of Gas Measurement Committee Report No. 3 of the American Gas Association as revised September, 1969 ("A.G.A. Report No. 3), with any subsequent amendments or revisions which may be mutually acceptable.

The temperature of the gas shall be determined by a recording thermometer so installed that it may record the temperature of the gas flowing through the meter or meters. The average of the record to the nearest one (1) degree Fahrenheit, obtained while gas is being delivered, shall be the applicable flowing gas temperature for the period under consideration.

The specific gravity of the gas shall be determined by a recording gravitometer owned and operated by the pipeline company from whom Company purchases its gas, so installed that it may record the specific gravity of the gas flowing through the meter or meters; provided, however, that the results of spot tests made by the pipeline company with a standard type specific gravity instrument shall be used at locations where the pipeline company does not have a recording gravitometer in service. If the recording gravitometer is used, the average of the record to the nearest one-thousandth (0.001), obtained while gas is being delivered, shall be the applicable specific gravity of the gas for the period under consideration. If the spot test method is used, the specific gravity of the gas delivered hereunder shall be determined once monthly, the result obtained, to the nearest one-thousandth (0.001), to be applicable during the succeeding billing month.

Adjustment for the effect of supercompressibility shall be made according to the provisions of A.G.A. Report No. 3, hereinabove identified, for the average conditions of pressure, flowing temperature and specific gravity at which the gas was measured during the period under consideration, and with the proportionate value of each carbon dioxide and nitrogen in the gas delivered included in the computation of the applicable supercompressibility factors. Company shall obtain appropriate carbon dioxide and nitrogen fraction values as may be required from time to time.

Positive Displacement Meters and Turbine Meters - When positive displacement meters and/or turbine meters are used for the measurement of gas, the flowing temperature of the gas metered shall be assumed to be sixty (60) degrees Fahrenheit, and no correction shall be made for any variation therefrom; provided however, that company shall have the option of installing a recording thermometer, and if company exercises such option, corrections shall be made for each degree variation in the applicable flowing temperature for the period under consideration.

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The volumes of gas determined shall be adjusted for the effect of supercompressibility as follows:

- (A) When the flowing temperature of gas is assumed to be sixty (60) degrees Fahrenheit, the supercompressibility factor shall be the square of the factor, Fpv, computed in accordance with the principles of the A.G. A. Report No. 3, hereinabove identified, for a pure hydrocarbon gas of six-tenths (0.6) specific gravity and for the average pressure at which the gas was measured.
- (B) When the flowing gas temperature is recorded and applied according to the option above, the supercompressibility factor shall be the square of the factor, Fpv, computed in accordance with the principles of the American Gas Association Gas Measurement Committee Report No. 3, hereinabove identified, for a pure hydrocarbon gas of six-tenths (0.6) specific gravity and for the average conditions of pressure and flowing temperature at which the gas was measured.

SUPPLY INTERRUPTIONS

Total or partial interruption of gas deliveries due to acts of God, the elements, requirements for residential and other uses declared superior to Consumers by law, or to other causes or contingencies beyond the control of Company or not proximately caused by Company's negligence, shall not be the basis for claims-delivery and receipt of gas to be resumed whenever any such cause or contingency shall end.

CHARGES FOR UNAUTHORIZED OVER-RUN GAS

Any gas taken during any day by Consumer which exceeds the maximum daily quantity specified in Consumer's contract with Company shall be considered to be unauthorized over-run gas. Any gas taken by Consumer after the effective hour of an order calling for a complete curtailment of all gas deliveries, and prior to the authorized resumption of natural gas service, hereunder shall be considered to be unauthorized over-run gas. Any gas taken by Consumer after the effective hour of an order calling for a partial curtailment, and prior to the authorized resumption of natural gas service, which exceeds the stated amount of gas deliveries Consumer may take during such partial curtailment, shall be considered to be unauthorized over-run gas. Company shall bill, and Consumer shall pay for unauthorized over-run gas at the rate of \$10.00 per Mcf, in addition to the Monthly Rate specified herein for such gas. The payment of such additional charge for unauthorized over-run gas shall not, under any circumstances, be considered as giving the Consumer the right to take unauthorized over-run gas, nor shall such payment be considered to exclude or limit any other remedies available to Company against the Consumer for exceeding the maximum daily quantity specified in Consumer's contract with Company, or for failure to comply with curtailment orders issued by Company hereunder.

The additional amount specified above charged for unauthorized over-run gas shall be adjusted, either plus or minus, to conform to the change made by Company's supplier in its rate schedule under which Company purchases its gas supply for resale under this schedule.

RULES AND REGULATIONS

Service under this schedule shall be furnished in accordance with the Company's General Rules and Regulations, as such rules may be amended from time to time. A copy of the Company's General Rules and Regulations may be obtained from Company's office located at 1111 Louisiana Street, Houston, Texas.

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RATE SHEET
RESIDENTIAL SERVICE
RATE SCHEDULE NO. _____**

APPLICATION OF SCHEDULE

This schedule is applicable to any customer to whom service is supplied in a single private dwelling unit and its appurtenances, the major use of which is for household appliances, and for the personal comfort and convenience of those residing therein.

Natural gas supplied hereunder is for the individual use of the customer at one point of delivery and shall not be resold or shared with others.

MONTHLY RATE

For bills rendered on and after the effective date of this rate schedule, the monthly rate for each customer receiving service under this rate schedule shall be the sum of the following:

(a) The Base Rate consisting of:

- (1) Customer Charge – \$ 13.54
- (2) Commodity Charge –
All Ccf \$0. 0308 per Ccf

(b) Tax Adjustment – The Tax Adjustment will be calculated and adjusted periodically as defined in the Company's applicable Tax Adjustment Rate Schedule and applicable Franchise Fee Adjustment Rate Schedule.

(c) Gas Cost Adjustment – The applicable Purchased Gas Adjustment (PGA) Rate – as calculated on a per Ccf basis and adjusted periodically under the applicable Purchased Gas Adjustment (PGA) Rate Schedule – for all gas used.

Payment

Due date of the bill for service shall not be less than 15 days after issuance or such other period of time as may be provided by order of the regulatory authority. A bill for utility service is delinquent if unpaid by the due date.

RULES AND REGULATIONS

Service under this schedule shall be furnished in accordance with the Company's General Rules and Regulations, as such rules may be amended from time to time. A copy of the Company's General Rules and Regulations may be obtained from Company's office located at 1111 Louisiana Street, Houston, Texas.

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HOUSTON DIVISION
RATE SHEET
SERVICE RATE SCHEDULE NO. _____**

APPLICATION OF SCHEDULE

The Hurricane Ike Surcharge (“IKE”) rate as set forth in section (B) below is for the recovery of losses incurred by the Company as a direct result of Hurricane Ike and not recoverable from any other source. These losses include insurance deductibles under the property damage and business interruption policies. The IKE rate identified in this rate schedule shall apply to all standard rate customers of Centerpoint Energy Texas Gas Houston Division. The standard rate customers are defined as the residential, small commercial, and large commercial customers of the Houston Division.

(B) IKE RATE

The percentage of total costs to be allocated to standard rate class customers is 98.72% distributed as set forth below:

Residential Customers:	88.15%
Small Commercial Customers:	7.5062%
Large Commercial Customers:	3.0664%

Centerpoint Energy Texas Gas shall calculate a per Ccf rate for residential, small commercial, and large commercial customers based on the total costs to be recovered from each of the standard rate customers as determined above. Any refunds due to recovery of expense from insurance proceeds shall be refunded on the same allocation basis described above.

EFFECTIVE DATES

Ike Rider to be effective for meters read on or after March 1, 2010.

This rate will be in effect until all approved and expended Hurricane Ike costs are recovered under the applicable rate schedules. This Rider does not limit the legal rights and duties of the Cities and is subject to all applicable laws and orders and the Company’s rules and regulations of file with the regulatory authority.

This rate will be in effect for approximately 36 months until all approved Hurricane Ike charges are recovered from the applicable customer classes as documented in the compliance filing on Hurricane Ike Surcharge for GUD 9902. This tariff expires upon collection of \$2,571,915, which is estimated to be a three-year period ending in April of 2013.

COMPLIANCE

The Company will file quarterly, due on the 15th of each April, July, October, and January, a report with the RRC Gas Services Division. The report shall detail by class of customer the monthly collections for the IKE surcharge and show the outstanding balances.

Upon final settlement with the insurance company, Centerpoint shall file a copy of the final settlement statement from the insurance company regarding claims for Hurricane Ike. All insurance proceeds received under this policy shall be deducted from the amount allowed to be collected. If over-collected, a refund is required.

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RATE SHEET
SCHEDULE OF MISCELLANEOUS SERVICE CHARGES
RATE SCHEDULE NO. MISC-_____**

GAS SERVICE

1.	Institution of service to residential or general service	\$40
	After-hours surcharge for each after-hours service call	\$47
2.	Restore service after termination for non-payment, cut-off by customer or agent or for convenience of customer	\$40
	After-hours surcharge for each after-hours service call	\$47
3.	Turning off service to active meter – account not finalled (per trip)	\$20
	After-hours surcharge for each after-hours service call	\$47
4.	Special meter test at customer's request (see General Rules and Regulations for special situations – same customer at same location is allowed one test free of charge every four years)	\$15
5.	Change customer meter	\$55
6.	Change residential meter location: Minimum charge	\$350
	Additional meters in manifold each	\$55
	(Plus cost of materials)	
7.	Tap Charge	N.C.*
8.	Installation of remote read device where company cannot get access to read meter	\$180
9.	Disconnect service at main	\$300
	(Plus any costs arising out of any city ordinance or regulation governing work in city streets)	
10.	Restore service at main after termination for non-payment	\$300
	(Plus cost of materials)	
11.	Temporary transfer of individually metered multi-family service from vacating tenant to apartment complex owner. (Applicable to read and transfer transactions only. Precedent written agreement required.)	N.C.

*Except where Company is required to pay tap charge to pipeline supplier to serve the consumer, the consumer shall reimburse Company.

OTHER CHARGES

12.	Collection call - trip charge (not collected under miscellaneous service item no. 3 - Turning off service to active meter)	\$20
13.	Returned check	\$20

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SCHEDULE OF MISCELLANEOUS SERVICE CHARGES
RATE SCHEDULE NO. MISC-_____**

DEPOSITS

Up to the maximum amount allowed under the Railroad Commission of Texas Quality of Service Rule §7.45(5)(C)(ii) (the "one-sixth rule"). If there is no billing history on the customer's account, then the one-sixth rule will be applied to the customer's account based on similarly-situated customers located in the geographic area.

TAX ADJUSTMENT

The Tax Adjustment will be calculated and adjusted periodically as defined in the Company's Tax Adjustment Rate Schedule and Franchise Fee Adjustment Rate Schedule.

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RATE SHEET
PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-_____**

1. PURCHASED GAS ADJUSTMENT (PGA) APPLICABILITY

The Monthly Rate contained in the Company's total billing to residential and general service customers shall include the cost of natural gas purchased for resale hereunder.

2. RATE CALCULATION

The Purchased Gas Adjustment (PGA) Rate shall be calculated according to the following formula and included in the Monthly Rate:

$$\text{PGA Rate (per Mcf sold)} = [(G * R) \pm DA] \text{ rounded to the nearest } \$0.0001$$

$$\text{PGA Rate (per Ccf sold)} = \text{PGA Rate (per Mcf sold)} \div 10$$

Definitions:

G = The Company's best estimate of the cost of natural gas (per Mcf) to be purchased for resale hereunder during the period that the PGA Rate is to be effective. The cost of natural gas shall include the cost of gas supplies purchased for resale hereunder, upstream transportation charges, storage charges, the cost of gas withdrawn from storage less the cost of gas injected into storage, and any transaction-related fees, gains or losses and other transaction costs associated with the use of various financial instruments used by the Company to stabilize prices, provided such financial instruments were entered into prior to September 30, 2009. Expenses related to the use of various financial instruments used by the Company to stabilize prices shall not be included in the purchase gas adjustment clause after January 31, 2012.

R = Ratio derived by dividing the actual Mcf purchased for the customers billed hereunder for the twelve months ended the preceding August by the actual Mcf sold to the customers billed hereunder during the same period.

DA = Surcharge or surcredit, calculated on a per Mcf basis, relating to Deferred Purchased Gas Cost Accounts, as defined below.

3. PGA FILINGS

PGA filings shall be filed with the City of Houston and the Railroad Commission of Texas (the "Regulatory Authority") by the last business day of the month immediately preceding the month the proposed new PGA factor will be implemented. The PGA filing shall include a calculation of the estimated PGA Rate together with supporting documents. Each such tentative PGA Rate shall become effective for bills rendered on and after the first day of the calendar month and shall continue to be in effect until the next filing, unless after the PGA filing, the Regulatory Authority takes action to disapprove or modify such PGA rate. In the event that the Regulatory Authority takes such action, then the PGA rate shall be in effect on an interim basis pending the final decision of the Regulatory Authority, and any person designated by the Regulatory Authority shall have the right and power to order the filing of any reasonable additional information. Any adjustment to the PGA Rate relating to a prior period shall be made prospectively.

4. DEFERRED PURCHASED GAS COST ACCOUNTS

The Company shall establish and maintain Deferred Gas Cost Account(s) in which shall be recorded: (a) the balance of over or under recoveries of the cost of gas purchased for resale hereunder, determined for the period ending on the last day prior to the effective day of this revised Purchased Gas Adjustment rate

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RATE SCHEDULE NO. PGA-_____**

schedule, including subsequent corrections and amendments thereto; and (b) any over or under recovery of the cost of gas purchased for resale hereunder resulting from the operation of the PGA procedure commencing with the first day of this revised purchased gas cost adjustment. Such ongoing over or under recovery shall include: (a) gas cost revenue recovery amounts for the revenue month; (b) the cost of gas purchased for resale hereunder for the same month as the revenue month; (c) carrying charge or credit amounts calculated based on the arithmetic average of the beginning and ending month balance of under or over recovery for the revenue-cost month times six percent (6%); and (d) carrying charge calculated based on the arithmetic average of the beginning and ending balance of gas in storage inventory for the prior calendar month times the pre-tax rate of return as determined in Docket No. GUD 9902.

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RATE SHEET
FRANCHISE FEE ADJUSTMENT
RATE SCHEDULE NO. FFA-_____**

Application

Applicable to Customers inside the corporate limits of an incorporated municipality that imposes a municipal franchise fee upon Company for the Gas Service provided to Customer.

Monthly Adjustment

Company will adjust Customer's bill each month in an amount equal to the municipal franchise fees payable for the Gas Service provided to Customer by Company. Municipal franchise fees are determined by each municipality's franchise ordinance. Each municipality's franchise ordinance will specify the percentage and applicability of franchise fees.

Railroad Commission Reporting:

Centerpoint shall maintain on file with the Commission a current listing of Cities and applicable franchise fees.

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RATE SHEET
TAX ADJUSTMENT
RATE SCHEDULE NO. TA-_____**

The Customers shall reimburse the Company for the Customers' proportionate part of any tax, charge, impost, assessment or fee of whatever kind and by whatever name (except ad valorem taxes and income taxes) levied upon the Company by any governmental authority under any law, rule, regulation, ordinance, or agreement (hereinafter referred to as "the Tax"). If the law, rule, regulation, ordinance, or agreement levying the Tax specifies a method of collection from Customers, then the method so specified shall be utilized provided such method results in the collection of taxes from the Customers equal to the taxes levied on the Company. If no method of collection is specified, then the Company shall collect an amount calculated as a percentage of the Customers' bills applicable directly to those Customers located solely within the jurisdiction imposing the tax and/or within the jurisdiction where the tax is applicable. The percentage shall be determined so that the collection from Customers within the Company's different legal jurisdictions (municipal or otherwise defined) encompassing the Houston Division is equal to the taxes levied on the Company.

The initial Tax Adjustment Rate shall be based on the Taxes that are levied upon the Company on the effective date of this Rate Schedule. The Company will initiate a new or changed Tax Adjustment Rate beginning with the billing cycle immediately following the effective date of the new or changed Tax as specified by the applicable law, rule, regulation, ordinance, or agreement, provided that the Company has the customer billing data necessary to bill and collect the Tax. If at any time there is a significant change that will cause an unreasonable over or under collection of the Tax, the Company will adjust the Tax Adjustment Rate so that such over or under collection will be minimized. The Tax Adjustment Rate (calculated on a per Ccf or per Mcf basis, as appropriate) shall be reported to the applicable governmental authority by the last business day of the month in which the Tax Adjustment Rate became effective.