



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

GUD NO. 10106

APPEAL OF CENTERPOINT ENERGY RESOURCES CORP., D/B/A CENTERPOINT ENERGY ENTEX AND CENTERPOINT ENERGY TEXAS GAS FROM THE ACTIONS OF THE CITIES OF ALVIN, CLEAR LAKE SHORES, DICKINSON, FRIENDSWOOD, KEMAH, LA MARQUE, LAKE JACKSON, MANVEL, MONT BELVIEU, MORGAN'S POINT, ROSENBERG, SANTA FE, SEABROOK, SUGAR LAND, TAYLOR LAKE VILLAGE AND TEXAS CITY, TEXAS

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STATEMENT OF THE CASE

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas (“CenterPoint”) provide retail natural gas services to approximately 250,684 customers within its Texas Coast Division. This docket involves CenterPoint’s appeal from the denials by the Gulf Coast Coalition of Cities (“GCCC”) of CenterPoint’s 2011 Cost of Service Adjustment (“COSA”) filings made with the TCUC cities for the 2010 calendar year. As initially filed, CenterPoint requested a COSA that would result in an overall revenue increase for the affected services areas of \$914,910. CenterPoint agreed to certain changes in parallel proceedings before the Commission which resulted in an overall revenue increase of \$853,506. CenterPoint seeks approval in this appeal docket of rates that would result in an annual revenue increase of \$853,506, mirroring the Commission’s decision in the parallel proceedings.

The GCCC raised several objections to the proposed increase in rates. GCCC challenged the calculation of rate base in two areas. First, GCCC argued that the cash working capital component was incorrectly calculated because the company did not correctly calculate the bill processing lag, the operations and maintenance expense lead days, and the company improperly included a factoring expense. Second, GCCC objected to the company’s calculation of accumulated deferred income taxes. GCCC also challenged several components of the company’s operations and maintenance expenses including meter reading expenses, payroll expenses, incentive compensation expenses, and employee expenses. The Examiner found that the company met its burden of proof regarding its calculation of rate base and operation and maintenance expenses.

The parties also requested recovery of rate case expenses. The Examiners find that CenterPoint has established that its rate case expense request of \$86,652.95 is just and reasonable. Additionally, the company has established that it is entitled to recover amounts reimbursed to the GCCC municipalities in the amount of \$36,564.92. The Examiners find that GCCC has not established that its rate case expense request of \$113,621.76 is just and reasonable. The Examiners find that GCCC's request should be limited to \$37,653.81 in actual expenses and \$30,000 in estimated expenses.

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PROPOSAL FOR DECISION

1. Procedural History

CenterPoint Energy Resources Corp., d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas (“CenterPoint”) provide natural gas distribution service to approximately 1.5 million residential, commercial, and industrial natural gas distribution customers in the state of Texas. Within its Texas Coast Division, CenterPoint provides retail natural gas services to approximately 250,684 customers.¹

Two Cost of Service Adjustment (COSA) tariffs apply within the Texas Coast Division: COSA – 2 and COSA – 3. The COSA – 2 tariff was approved by several municipalities in 2008.² The COSA – 3 tariff was approved by the Commission in the Final Order issued in GUD No. 9791, *Statement of Intent Filed by CenterPoint Energy Entex to Increase the Rates in the Unincorporated Areas of the Texas Coast Division and all Consolidated Municipal Appeals* (“GUD No. 9791”).³ The COSA – 3 tariff is applicable to several municipalities and to all unincorporated areas of the Texas Coast Division within the Commission’s original jurisdiction.

On April 29, 2011, CenterPoint made a filing pursuant to the applicable COSA tariff with the regulatory authorities exercising jurisdiction over the Texas

¹ CenterPoint Ex. 1, p. 1.

² A copy of the Settlement Agreement and the COSA – 2 tariff is attached to this *Proposal for Decision* as Appendix 1.

³ On March 6, 2008, CenterPoint filed with the Commission and each of the municipalities within the Texas Coast Division a Statement of Intent to Increase rates. The company included a request that a COSA tariff be approved. Many municipalities denied the requested rate change and the proposed COSA tariff. CenterPoint appealed. Two separate municipal coalitions were formed, the Gulf Coast Coalition of Cities (“GCCC”) and the Texas Coast Utilities Coalition (“TCUC”). The GCCC municipalities and the company reached a settlement that implemented new rates, including a COSA – 2 tariff. CenterPoint Ex. 4, p. 5, ln. 19 – p. 6, ln. 9.

Coast Division. Certain municipal jurisdictions ceded jurisdiction to the Commission pursuant to Section 103.003 of the Gas Utility Regulatory Act (“GURA”).⁴ The COSA filings applicable to the municipalities that adopted the COSA – 2 tariff and that ceded jurisdiction to the Commission were docketed as GUD No. 10075. Those municipalities include the following: The cities of Danbury, El Lago, Hitchcock, Jones Creek, and Richwood, Texas. The COSA filing applicable to the municipality that adopted the COSA – 3 tariff and that ceded jurisdiction was docketed as GUD No. No. 10073. That municipality was the City of Weston Lakes, Texas. The COSA filing applicable to the environs within the Commission’s original jurisdiction was docketed as GUD No. 10074.

The municipalities that did not cede jurisdiction, where the COSA – 2 tariff is applicable, are part of the Gulf Coast Coalition of Cities (“GCCC”). The municipalities that did not cede jurisdiction, where the COSA – 3 tariff is applicable, are part of the Texas Coast Utilities Coalition (“TCUC”). All GCCC and TCUC municipalities denied the requested adjustment filed pursuant to the applicable COSA tariff. CenterPoint appealed those decisions. The appeals for the actions of the GCCC municipalities were docketed as GUD No. 10106. The appeals from the action of the TCUC municipalities were docketed as GUD Nos. 10097, 10105, and 10109. This proceeding relates to CenterPoint’s appeal of the actions of the GCCC municipalities. Table 1, provides a summary of the applicability of the COSA tariffs within the Texas Coast Division, the procedural mechanism of approval, and each proceeding related to those filings docketed at the Commission related to the 2010 COSA-tariff adjustments.

⁴ A municipality may elect to have the Railroad Commission exercise exclusive original jurisdiction over gas utility rates, operations, and services in the municipality by ordinance or through a municipal election. Tex. Util. Code Ann. § 103.003(a).

Table 1
 COSA Tariff and
 Docketed COSA Proceedings at the Commission Related to
 2011 COSA Filings for the 2010 Calendar Year

COSA – 2		COSA -3		
Approved by Municipalities ⁵		Approved in GUD No. 9791 ⁶		Approved in GUD No. 9791
<i>Alvin, Clear Lake Shores, Danbury, Dickinson, El Lago, Friendswood, Hitchcock, Jones Creek, Kemah, La Marque, Lake Jackson, Manvel, Mont Belvieu, Morgan's Point, Richwood, Rosenberg, Santa Fe, Seabrook, Sugar Land, Taylor Lake Village, and Texas City</i>		<i>Angleton, Baytown, Freeport, League City, Pearland, Shoreacres, West Columbia, Wharton</i>		Environs
Ceded Jurisdiction to Commission		Ceded Jurisdiction to Commission		Commission Original Jurisdiction
Danbury, El Lago, Hitchcock, Jones Creek, Richwood.	GUD No. 10075 Final Order July 26, 2011	Weston Lakes	GUD No. 10073 Final Order July 26, 2011	GUD No. 10074 Final Order July 26, 2011
GCCC denied COSA – 2 Filing Appeal Filed August 10, 2011 GUD No. 10106		TCUC denied COSA – 3 Filing Appeal Filed June 8, 2011, August 10, 2011 & August 25, 2011 GUD Nos. 10097, 10105, 10109		

This case involves the appeals from the GCCC denials of the COSA – 2 tariff filing, highlighted on Table 1. As noted above, and on Table 1, the rates at issue in this docket have been reviewed by the Commission in GUD No. 10075. A final order was issued in those proceedings on July 26, 2011.

The hearing on the merits was held November 7, 2011, for the purpose of submitting stipulated evidence. The parties agreed to waive cross examination of the witnesses. CenterPoint presented written testimony in support of its direct case from Kelly C. Gauger, Director, Financial Accounting for CenterPoint and Scott Doyle, Division Vice President – Regional Operations for CenterPoint. Karl J. Nalepa, ReSolved Energy Consulting, LLC., provided written testimony on behalf of the GCCC. Rebuttal testimony was filed on behalf of CenterPoint by Mr.

⁵ GCCC Municipalities are in italics. As noted in footnote 2, above, these municipalities adopted the COSA – 2 as part of a settlement that implemented new rates at the time that the Statement of Intent was filed with the various municipalities that resulted in the appeal in GUD No. 9791.

⁶ TCUC Municipalities are in italics.

Doyle, Walter A. Hunter, Manager of Meter Reading and Central Metering for CenterPoint Energy Houston Electric, Ms. Gauger, and Marc Kilbride, Vice President and Treasurer, CenterPoint Energy Services Company. Additionally, the parties submitted evidence in support of the rate case expense request.

2. Jurisdiction

The Commission has jurisdiction over the applicant, associated affiliates, 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 2007 and Supp. 2010). 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.

3. Books and Records

Commission Rule 7.310 requires that utilities adopt the Federal Energy Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”).⁷ Kelly Gauger, Director of Financial Accounting affirmed that the books and records are kept in accordance with the FERC USOA. Specifically, Ms. Gauger testified that to ensure that transactions are properly recorded, CenterPoint maintains an internal process to make certain that financial statements are fairly presented and are in compliance with applicable laws and regulations. Accordingly, she asserted that the company’s systems of internal controls and its adherence to FERC USOA assured compliance with Commission Rule 7.310. As a result, Ms. Gauger concluded that the company is entitled to the presumption

⁷ TEX. ADMIN. CODE § 7.310 (Tex. R.R. Comm’n, System of Accounts) (Commission Rule 7.310).

encapsulated in Commission Rule 7.503.⁸ That rule provides that the amounts shown on the company's books and records as well as summaries and excerpts taken from those records shall be considered *prima facie* evidence of the amount of investment or expense reflected when introduced into evidence, and such amounts are presumed to have been reasonably incurred.⁹ Accordingly, the books and records are accorded the presumption found in Commission Rule 7.503.

4. Scope of the Proceeding and Overview of the Company's Rate Request

The scope of this proceeding is limited by the COSA – 2 tariff. The tariff established a procedure whereby CenterPoint annually proposed adjustments to its Texas Coast Division customer charges for natural gas distribution services based upon the fundamental rate components established as part of the settlement entered into between CenterPoint and the GCCC. Among the components established in the COSA tariff are the appropriate allocation of corporate expenses, depreciation rates, the rate of return, the allocation of costs among classes of customers, and rate design. To the extent that CenterPoint would seek to adjust those components, the utility would not be able to alter those components in the context of a filing made pursuant to the COSA tariff. Likewise, the regulatory authority may not undertake a re-evaluation of the terms of the COSA tariff within the context of a utility-initiated COSA filing.¹⁰

Calculation of the COSA rate adjustment is to be based upon calendar year operating expenses. The calendar year operating expenses are those reported to the Commission in the annual report filed by CenterPoint. The COSA tariff requires

⁸ TEX. ADMIN. CODE § 7.503 (Tex. R.R. Comm'n, Evidentiary Treatment of Uncontroverted Books and Records of Gas Utilities) (Commission Rule 7.503).

⁹ CenterPoint Exhibit 5, Direct Testimony of Kelly Gauger, pp. 3 – 5.

that schedules of changes provided to the regulatory authority be based upon the company's audited financial data, as adjusted.¹¹

Pursuant to the provisions of the COSA tariffs the regulatory authorities may challenge those expenditures to determine whether the calendar year expenditures are (1) used and useful; (2) reasonable and necessary; (3) conform to the affiliate transaction standard; or, (4) violate any limitation related to legislative advocacy, charitable or civic contributions.¹²

On the other hand, the following issues are not within the scope of a COSA tariff proceeding:

- (1) Depreciation method;¹³
- (2) Allocation of corporate expenditures;
- (3) Allocation of costs among customer classes;
- (4) Rate design;
- (5) Calculation of rate base premised upon the 13-month average materials and supplies inventories and prepayments; and
- (6) Rate of return.¹⁴

The first four elements each typically represent a methodological factor that is applied to the costs of the utility in subsequent COSA filings. In mathematical terms the "methodological factor" is a number that is applied to the costs. The fifth

¹⁰ A regulatory authority having jurisdiction over CenterPoint may initiate a rate proceeding to reevaluate all of the rate components and costs of the utility. Similarly, CenterPoint may initiate a full rate proceeding to undertake a reexamination of all rate components.

¹¹ COSA – 3 Tariff, p. 1, paragraph 3.

¹² This is only an illustrative list of issues and is not intended to be an exhaustive list of all potential issues in a COSA proceeding.

¹³ Indeed, even in the absence of the COSA tariff it is arguable that the depreciation methods and lives may not be subject to re-litigation in a subsequent proceeding. *See, City of Amarillo v. Railroad Comm'n of Texas*, 894 S.W.2d 491, 501 (Tex. App – Austin, 1995, writ denied). The Austin Court of Appeals held that the doctrines of *res judicata* and collateral estoppel prohibit a utility or protestant unhappy with the Commission's determination of depreciation rates from perennially resurrecting the issues without first proving that circumstances have changed.

¹⁴ The COSA rate of return is specific to the utility at issue in this case. In *Reliant Energy, Inc. v. Public Util. Comm'n*, 153 S.W.3d 174, 192 – 198 (Tex. App – Austin, 1995, no pet.), the Austin Court of Appeals held that a rate of return determined in a generic proceeding was appropriately applied to a specific utility based, in part, on the authority of the Public Utility Commission to manage its docket.

element, the use of a 13-month average, represents a determination regarding the proper calculation of rate base, i.e., a mathematical formula for the calculation of rate base. The rate of return is the allowable rate of return approved as part of the settlement agreement with the GCCC municipalities which is mathematically applied as a factor to the utility's overall rate base. The *factor* or mathematical formula – the rate encompassed in the COSA tariff – is not at issue in this proceeding. On the other hand, the *costs* included in the COSA filing, to which that factor or mathematical formula may be applied, are at issue. The utility must establish that those costs are just and reasonable as required by section 104.051 of the Gas Utility Regulatory Act and those costs will be subject to a full evaluation in a COSA-tariff proceeding.¹⁵

COSA was intended, in part, to provide a streamlined process to implement changes in rates as the utility's underlying costs changed and to protect the regulated customer from exorbitant rate case expenses. Thus, for example, it is a process to avoid the expenses associated with the proceeding in GUD No. 9791 which resulted in **\$1,801,307** in rate case expenses.¹⁶ Utilities incurred the following rate case expenses in prior rate proceedings: **\$1,933,272** for GUD No. 9762;¹⁷ **\$2,934,658** for GUD No. 9902¹⁸; **\$9,708,038** for GUD No. 9670;¹⁹ **\$10,122,345** for GUD No. 9400.²⁰ These cases, which spanned from 2005 through 2010, resulted in **\$26,499,620** in rate case expenses. Expenses that were ultimately borne by regulated customers. COSA was intended, in part, to protect customers from these expenditures and allow recovery of a utility's reasonable expenses.

¹⁵ See, CenterPoint Ex. 4, Direct Testimony of Scott E. Doyle, p. 4, ln. 18 – p. 5, ln. 7.

¹⁶ Tex. R.R. Comm'n *Rate Case Expenses Severed from GUD No. 9791*, Docket No. 9811 (Gas Utils. Div. July 19, 2010), Final Order, Findings of Fact Nos. 11 & 12.

¹⁷ Tex. R.R. Comm'n, *Severed Rate Case Expenses from Docket No. 9762*, Docket No. 9787 (Gas Utils. Div. June 9, 2010).

¹⁸ Tex. R.R. Comm'n, *Severed Rate Case Expenses from Docket No. 9902*, Docket No. 9954 (Gas Utils. Div. July 19, 2010).

¹⁹ Tex. R.R. Comm'n, *Severed Rate Case Expenses from Docket No. 9670*, Docket No. 9695 (Gas Utils. Div. Feb. 12, 2008).

²⁰ Tex. R.R. Comm'n, *Severed Rate Case Expenses from Docket No. 9400*, Docket No. 9517 (Gas Utils. Div. March 5, 2005).

CenterPoint is appealing in this proceeding the GCCC Cities' denial of the company's 2011 COSA adjustment. CenterPoint filed the same rate filing packages pursuant to its COSA – 2 tariff with the GCCC municipalities as it filed with the Commission for the areas under the Commission's original jurisdiction to which the COSA – 2 tariff applies.²¹ As initially filed, the company proposed a \$14.73 customer charge for residential customers, a \$14.94 customer charge for general small commercial customers, and a \$17.23 rate for general service large volume customers. By the terms of the COSA – 2 tariff, the commodity charge is not affected by this proceeding. Therefore, the rates to be charged customers, pursuant to the proposed rates, are set forth in Table 2 below.

Table 2
Initial Rates Requested

	Residential	General Service Small	General Service Large
Customer Charge	\$14.73	\$14.94	\$17.23
Commodity Charge	\$0.0724 Ccf	First 150 Ccf: \$0.0850 Ccf Over 150 Ccf: \$0.0623 Ccf	First 1,500 Ccf: \$0.0844 per Ccf 1,500 – 10,000 Ccf: \$0.05880 per Ccf Over 10,000 Ccf: \$0.04980 per Ccf

Pursuant to the provisions of the COSA tariffs related to rate design, any change in rates is incorporated exclusively in the customer charge. Thus, the commodity rate is not within the scope of this proceeding. In Docket No. 10075, the Commission ultimately approved rates that were lower than requested. As a result of those changes the rates charged to CenterPoint's customers pursuant to that order are set forth in Table 3.

²¹ CenterPoint Ex. 4, Direct Testimony of Scott E. Doyle, p. 2, ln. 16 – p. 3, ln. 4.

Table 3
Rates Currently Requested and Approved by the Commission in GUD No. 10075

	Residential	General Service Small	General Service Large
Customer Charge	\$14.69	\$14.90	\$16.96
Commodity Charge	\$0.0724 Ccf	First 150 Ccf: \$0.0850 Ccf Over 150 Ccf: \$0.0623 Ccf	First 1,500 Ccf: \$0.0844 per Ccf 1,500 – 10,000 Ccf: \$0.05880 per Ccf Over 10,000 Ccf: \$0.04980 per Ccf

CenterPoint requested that the rates in Table 3 be adopted in this proceeding.²² GCCC argued that the rates approved by the Commission should be adjusted further.

5. Municipal Ordinances

Although the applicable ordinances did not specifically delineate the items at issue, the municipalities retained a consultant, Karl Nalepa, who prepared a report (“Consultant’s Report”) outlining alleged deficiencies in the company’s rate increase request.²³ CenterPoint witness Scott Doyle pointed out that some of the issues raised by GCCC’s witness, Mr. Nalepa were already accounted for in the Final Order issued in GUD No. 10075.²⁴ On the other hand, Mr. Doyle acknowledged that some of the proposed adjustments were not contemplated in Final Order in GUD No. 10075. He argued, however, that those adjustments should be rejected as CenterPoint has established that its costs of service is just and reasonable.²⁵

²² CenterPoint Ex. 1, Direct Testimony of Scott E. Doyle, p. 3, lns. 2 – 5.

²³ CenterPoint Ex. 1, Direct Testimony of Scott E. Doyle, p. 7, lns. 7 – 15, Exhibit SED-2.

²⁴ CenterPoint Ex. 1, Direct Testimony of Scott E. Doyle, p. 7, ln. 16 – p. 8, ln. 9.

²⁵ CenterPoint Ex. 1, Direct Testimony of Scott E. Doyle, p. 8, lns. 10 – 18.

6. Rate Base

a. Cash Working Capital

(1) Introduction

Cash Working Capital (“CWC”) is a component of rate base that reflects the company’s need for capital because of the timing differences between providing a service and payment for that service. If the CWC requirement is positive, it is provided by investors. Thus, it is an addition to rate base. If the CWC requirement is negative, it is provided by customers. Thus, it is a deduction to rate base.²⁶

The original rate adjustment requested pursuant to the COSA – 2 tariff included a negative CWC request in the amount \$590,077.²⁷ This operated as a reduction to rate base. Mr. Nalepa recommended a cash working capital adjustment of a negative \$2,114,574.²⁸ This adjustment would reduce rate base by a greater amount than that included in the company’s rate request. This adjustment, however, did not lower by the same magnitude the CWC component included in the rates approved by the Commission in GUD No. 10075. In that case, rates were based on a negative CWC adjustment in the amount of \$2,143,012.²⁹ CenterPoint requested approval of rates that reflected that CWC adjustment. GCCC seeks a CWC adjustment that is of a lesser magnitude. Thus, GCCC is requesting an adjustment to this amount that would, on a stand-alone basis, result in an increase to the company’s proposed rates.

²⁶ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 9, lns. 6 – 11.

²⁷ CenterPoint Ex. 3, Direct Testimony of Kelly C. Gouger, Exhibit KCG-1, p. 6.

²⁸ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 12, lns. 17 – 20.

²⁹ GUD No. 10075.

GCCC raised three issues in the context of CWC:

- Bill Processing Lag
- Operation and Maintenance Expense Lead Days, and
- Factoring.

(2) Bill Processing Lag

Billing lag is the time consumed in the billing process. Mr. Nalepa argued that the bill processing lag should be reduced for residential, commercial and industrial customers. He noted that in GUD No. 9902, the Commission determined that a billing lag of three days was just and reasonable.³⁰ The CWC calculation approved by the Commission in GUD No. 10075 included a CWC calculation based upon a billing lag of three days.³¹ CenterPoint has requested that the rates approved in GUD No. 10075 be approved in this case. The Examiners find that no further adjustment is required.

(3) Operation and Maintenance Expense Lead

Mr. Nalepa contended that the filing made by CenterPoint in this proceeding was not consistent with the Commission's determination in GUD No. 9902. The CWC calculation approved by the Commission in GUD No. 10075 included a CWC calculation consistent with the Commission's determination in GUD No. 9902.³² CenterPoint has requested that the rates approved in GUD No. 10075 be approved in this case. The Examiners find that no further adjustment is required.

³⁰ Direct Testimony of Karl J. Nalepa, p. 10, ln. 6 – p.

³¹ CenterPoint Ex. 6, Rebuttal Testimony of Kelly C. Gauger, p. 4, ln. 16 – p. 5, ln. 4 & Direct Testimony of Karl J. Nalepa, p. 13, lns. 1 – 6.

³² CenterPoint Ex. 6, Rebuttal Testimony of Kelly C. Gauger, p. 4, ln. 16 – p. 5, ln. 4 & Direct Testimony of Karl J. Nalepa, p. 13, lns. 1 – 6.

(4) Factoring

Factoring of accounts receivable may impact the collection lag used in calculating the CWC requirement. The collection lag reflects the time between the billing for services rendered and the receipt from customers of the revenues billed. The collection lag may be ameliorated through the factoring of accounts receivable.

GCCC explained that certain expenses related to the factoring of accounts receivable were added after the case was filed and included in the Final Order issued in GUD No. 10075. Mr. Nalepa argued that it was improper to include those expenses in the cash working capital analysis. In briefing GCCC argued further that the company conceded that it did not use its accounts receivable facility during the test year. Therefore, the company should not be permitted to include any level of expense associated with the unused factoring facility.³³

Ms. Gauger testified that the factoring expense is a cost incurred to establish and maintain the receivables facilities even if the facility is not used. She testified that the test-year factoring expense was \$194,632. The factoring expense was included in the COSA application and Ms. Gauger testified that this was consistent with previous COSA filings made at the Commission in GUD No. 9985 and 9987.³⁴

Mr. Kilbride also testified on the subject of factoring. He explained that maintaining a receivables facility provides several benefits. The receivables facility increases CERC's liquidity and diversifies CERC's funding sources. The

³³ GCCC Initial Brief, pp. 7 – 8.

³⁴ CenterPoint Ex. 6, Rebuttal Testimony of Kelly C. Gauger, p. 5, ln. 7 – p. 7, ln. 6.

receivables facility is a source of capital that is less sensitive to changes in CERC's credit and liquidity than a revolving credit facility. The rate on advances under the receivables facility may be lower than rates on loans under CERC's revolving credit facility. The receivables facility provides CERC with flexibility to make significant day-to-day changes in the amount advanced without impacting the rate on advances. Finally, advances under the receivables facility are not considered "debt" when calculating compliance with the financial covenants in the revolving credit facilities of CNP and CERC.³⁵

The Texas Coast Division is one of the divisions of CERC that periodically sells its customer accounts receivables. The receivables are sold to an affiliate, CenterPoint Energy Gas Receivables, LLC ("CEGR"). In return the Texas Coast Division may receive one of the following:

- Cash
- A subordinated note payable to CEGR; and/or
- An equity interest in CEGR

Cash is received by the Texas Coast Division at the time of sale only if CEGR receives cash as a result of its sale of an interest in the receivables to a third party purchaser. As no cash was received during the test year the cash working capital of the company was unaffected.

The Examiners find that CenterPoint has established that its treatment of factoring expenses and the calculation of the company's CWC is just and reasonable in the context of the COSA – 2 tariff adjustment. Furthermore, the COSA – 2 tariff requires that the company calculate its operating expenses based upon the COSA – 2 tariff test year. No party disputes that CenterPoint incurred

³⁵ CenterPoint Ex. 7, p. 6, lns. 16 – 37.

expenses related to factoring and maintains an accounts receivable facility that is capable of factoring accounts.

b. ADIT

Part of a utility's calculation of total rate base is the calculation of the accumulated deferred income tax ("ADIT") which is added to or subtracted from the total rate base. Deferred taxes arise because of the timing differences between recognition of certain items for book purposes versus tax purposes. A credit operates as a decrease to rate base in that it represents a cost-free source of capital while a debit represents tax payments that the utility has funded before they are collected from customers.³⁶

Mr. Nalepa argued that an adjustment should be made in order for there to be consistency with the Commission's Final Order in GUD No. 9902. In that case, the Commission made several findings with regards to the calculation of ADIT:

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.

³⁶ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 13, ln. 17 – p. 14, ln. 4.

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.³⁷

Mr. Nalepa contended that consistency required that an adjustment to the ADIT calculation be made in three areas:

- The reserve for total miscellaneous expense (Bad Debt) has not been deducted from rate base so it is not reasonable to include an ADIT debit in rate base for the tax liability associated with the reserve.
- The reserve for total employee benefit accruals has not been deducted from rate base so it is not reasonable to include an ADIT debit in rate base for the tax liability associated with this reserve.
- The reserve for rate case expense has not been deducted from rate base so it is not reasonable to include an ADIT debit in rate base for the tax liability associated with this reserve.

Ms. Gauger responded by noting that the company has treated ADIT in a manner consistent with the terms of the COSA – 2 tariff and all previous COSA filings. Furthermore, the Commission has approved prior COSA adjustments including these reserves in the ADIT calculation in GUD Nos. 9872, 9987, and 10075.

The Examiners find that CenterPoint has established that in the context of the COSA – 2 tariff applicable to the GCCC municipalities within the Texas Coast Division and the circumstances of this case, its requested ADIT calculation is just

³⁷ GUD No. 9902, Final Order, Findings of Fact Nos. 50 – 56.

and reasonable. The COSA – 2 tariff agreed to by the GCCC municipalities provided that the COSA – 2 adjustments are to be based on the calendar year operating expenses as “reported to the Railroad Commission of Texas in the annual report for the Company.”³⁸ No contention has been made that the ADIT calculation is not based on the amounts recorded in the annual report filed by CenterPoint.

The municipalities have correctly noted that the issue was raised in GUD No. 9902, a *Statement of Intent* proceeding involving CenterPoint’s Houston Division. As discussed in the *Proposal for Decision* in that case, CenterPoint argued that the treatment of ADIT entries was appropriate given the bookkeeping entries and tax requirements of calculating ADIT. As discussed therein, the Examiners recommended, and the Commission ultimately ordered, that under the circumstances of that case and the evidentiary record that it was reasonable to make certain adjustments to the ADIT calculation.³⁹ The COSA – 2 tariff agreed to by CenterPoint and GCCC does not contemplate such an adjustment. As noted above, the calculations are to be based on the expenses reported to the Railroad Commission of Texas in the annual report of the company.

Additionally, the GCCC municipalities have not previously raised this issue in the context of a COSA – 2 tariff adjustments. CenterPoint filed its 2008 COSA on May 1, 2009, and GCCC allowed the first COSA-2 adjustment at the municipal level to go into effect by operation of law. GCCC did not raise this issue at that time. CenterPoint filed its second COSA – 2 tariff adjustment on April 30, 2010. The second COSA – 2 tariff adjustment was filed after the Final Order was issued in GUD No. 9902. Although it was not initially approved and an appeal was filed

³⁸ COSA – 2 Tariff, p. 6, para. 3.

³⁹ See, GUD No. 9902, *Proposal for Decision*, pp. 27 – 37, Attached as Appendix 2.

at the Commission, the GCCC municipalities ultimately settled. The settlement was approved in GUD No. 10006. The GCCC municipalities did not allege that the ADIT calculation reflected in that COSA – 2 tariff adjustment was unreasonable or incorrectly calculated.

7. Expenses

a. Meter Reading Expenses

The meter reading expense increased from \$1,886,825 in 2009 to \$2,358,108 in the test year period. GCCC objected to this increase of \$471,283. CenterPoint's electric affiliate, CenterPoint Energy Houston Electric ("CEHE"), conducts meter reading on behalf of its local gas distribution affiliate. Field employees visit each location, obtain a reading for both electric and gas meters and return the data to the office where the billing transaction is processed.

The cost of the meter reading is allocated among the both affiliates based on the number of meters read. The CenterPoint meter reading operation in the Houston area, including the Texas Coast Division, is the only CenterPoint meter reading operation responsible for both gas and electric meter readings. All other CenterPoint meter reading operations are responsible for gas meter reading only because the electric service in those areas is provided by entities other than an affiliate of CenterPoint.

Meter reading costs are determined on a monthly basis based on the total number of meters that are being manually read in the field. Each gas and electric business unit is charged its portion of the allocation of those meters reading

expenses based on the total number of gas meters versus the total number of electric meters that are being read manually.

CEHE has recently converted several of its meters to an advanced metering system (“AMS” or “Smart Meters”). Mr. Nalepa explained that with the automation of the electric meters under CenterPoint’s affiliate electric utility Smart Meter program, a larger percentage of meter reading and meter reading administrative costs are now borne by CenterPoint. As only a gas meter needs to be manually read, the gas utility bears a higher portion of the allocated costs. Thus, Mr. Nalapa contended that natural gas distribution customers are penalized with increased costs. Namely, the customers of CenterPoint will be paying the increased capital costs of the AMS meters in their electric bills and the reallocated meter reading costs in their gas bills. Thus, he contended that the customers will not benefit from any avoided meter reading costs.

The Examiners find that CenterPoint has established that the meter reading expenses included in its COSA – 2 tariff filing are just and reasonable. CenterPoint established that the Texas Coast Division experienced the lowest meter reading expense of any CenterPoint operating division in Texas. As described by CenterPoint, meter reading costs are determined on a monthly basis based on the total number of meters that are being manually read in the field. The expense has increased because CenterPoint no longer is able to share all of its meter reading expense with its affiliate. This is the result of converting existing electric meters to an AMS meter. Finally, GCCC suggested in its *Initial Brief* that the Commission should order that CenterPoint seek authority from the Commission before implementing advanced metering in its gas operations. The Examiners find that the request is beyond the scope of this proceeding.⁴⁰

⁴⁰ GCCC Initial Brief, p. 12. See also, CenterPoint Reply Brief, pp. 8 – 10.

b. Payroll Expense

Mr. Nalepa argued that employee salary increases should be limited to 3%. In the current economic environment he argued that anything more was not reasonable. Specifically, for those employees whose job descriptions did not change during the test year he contended that a salary increase in excess of 3.0% was not reasonable. On the other hand, employees who were promoted to a higher position during the test year should not be limited to a 3.0% cap. His adjustment resulted in a reduction to operations and maintenance expense of \$61,392.⁴¹

In response, Ms. Gauger asserted that Mr. Nalepa's singular focus on salary increases was unreasonable and failed to consider the total salary expense level of the company. A level that she contended was just and reasonable and actually lower at the end of 2010 when compared to the January 2010 levels. Ms. Gauger asserted that the total annual gross base salaries as of December 2010 actually decreased from January 2010 by \$121,000. Further, she argued that even if one were to determine that the increase in base salary expense should be limited to 3% it should be determined on an aggregate basis, not on an individual employee basis as differences in performance and other factors are reflected in an individual employee's annual salary increase.⁴²

Finally, she argued that his adjustment was not based upon the correct data. Using Mr. Nalepa's criteria the correct data would yield a \$52,318 adjustment not a \$61,392 adjustment.⁴³ Ms. Gauger concluded that payroll expense was calculated in accordance with the COSA – 2 tariff and consistent with the method of calculation approved by the Commission in the previous two COSA dockets.

The Examiners find that the company has established that the salary levels included in its cost of service calculation for purposes of the COSA – 2 tariff

⁴¹ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 18, lns. 4 – 10.

⁴² CenterPoint Ex. 6, Rebuttal Testimony of Kelly C. Gauger, p. 10, lns. 7 - 21.

adjustments are reasonable. GCCC did not challenge any of the specific salary levels for employees as being unreasonable. The only challenge related to the salary increase awarded during the COSA – 2 adjustment test year. The Examiners find that GCCC's proposed adjustment to salaries is not persuasive.

c. Incentive Compensation

Mr. Nalepa pointed out that the company accrued \$640,867 of short-term incentive compensation and \$80,512 of long-term incentive compensation during the test year period. The company made an adjustment to short-term incentive compensation in order to maintain consistency with the Commission's determination in GUD No. 9791.⁴⁴ Specifically, Finding of Fact No. 65 provided as follows:

It is reasonable to allow CenterPoint to recover incentive compensation expenses for direct employees of the Texas Coast Division and for Houston support employees.

Mr. Nalepa argued that in its more recent order in GUD No. 9902, related to CenterPoint's Houston Division, the Commission found that incentive compensation expenses are reasonable only to the extent that they include certain customer-oriented goals.⁴⁵ In support for his proposition, Mr. Nalepa cited to Finding of Fact No. 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, and (6) preventable vehicle incident rate.

⁴³ CenterPoint Ex. 6, Rebuttal Testimony of Kelly C. Gauger, p. 6, ln. 22 – p. 7, ln. 3.

⁴⁴ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 18, lns. 12 – 17.

⁴⁵ GCCC Ex. 1, Direct Testimony of Karl J. Nalepa, p. 18, ln. 11 – p. 19, ln. 4 & FN 35.

He proposed an adjustment that would remove an additional \$468,125 of the requested short-term incentive compensation amount and the entire \$80,512 in long—term incentive compensation.⁴⁶

Ms. Gauger responded by asserting that the filing made by CenterPoint was consistent with the Final Order in GUD No. 9791. She also noted that the Final Order in GUD No. 10075 reflected the removal of all amounts associated with long-term incentive compensation: \$80,512. Thus, the company's request no longer reflected this amount. Ms. Gauger also contended that the Final Order in GUD No. 9902 does not support Mr. Nalepa's proposed adjustment.

She argued that a close review of the Final Order reveals that Mr. Nalepa misinterpreted GUD No. 9902. Finding of Fact No. 63 of that order provides that "CenterPoint established that expenses related to incentive compensation plans, long-term incentive and short-term incentive, are just and reasonable." She noted that the finding also included an underlying fact: Customer-oriented goals were included in the company's plan.

The Examiners find that the company's request regarding short-term incentive compensation and long-term incentive compensation, as reflected in the Final Order issued in GUD No. 10075, is just and reasonable. The amounts for long-term incentive compensation have already been removed. Furthermore, the company's treatment of short-term incentive compensation is consistent with the Commission's Final Orders in the following dockets: GUD Nos. 9791, 9902, 9987 (COSA – 2), GUD No. 10006 (COSA – 2), and GUD No. 10075 (COSA – 2). Those cases provide no support for Mr. Nalepa's contention that only a portion of

⁴⁶ GCCC Ex. 1, Direct Testimony of Karl J. Nalep, p. 19, 1 – 4.

the short-term incentive compensation plan should be included in the cost of service calculation.

d. Employee Expenses

Mr. Nalepa argued that two adjustments were required related to employee expenses. He made two adjustments associated with employee meals. First, meals costing more than \$25 per person were reduced by the amount in excess of \$25 per person. This adjustment reduced the operation and maintenance expense by \$976. His second adjustment was to remove expenses for meals which included alcohol, food purchases for holiday parties, expenses associated with ball games, other social events such as the rodeo, and miscellaneous items such as the purchase of shirts for special events, gifts to be given away at raffles, etc. This adjustment reduced the operations and maintenance expense by \$9,113. The proposed adjustment, therefore, was \$10,089.⁴⁷

Ms. Gauger contended that all of the company's travel and meal expenses included in the original filing were just and reasonable. Nevertheless, she explained that the Commission made an adjustment in GUD No. 10075 in excess of Mr. Nalepa's request. The company reduced employee-related expenses by \$67,644, as reflected in Finding of Fact No. 36, in the Final Order in GUD No. 10075. As the company is requesting approval of the same rates here, any additional adjustment was not warranted.

The Examiners find that the current request of CenterPoint already incorporates the proposed adjustment and no further adjustment is warranted.

⁴⁷ GCCC Ex. 1, Direct Testimony of Karl J. Nalep, p. 19, lns. 6 – 13.

c. Affiliate Transactions

Aside from the issues related to meter reading, no party raised any issue regarding affiliates transactions. The nature of the affiliate transaction in this proceeding has not changed since the settlement agreement made between GCCC and CenterPoint adopting the COSA – 2 tariff. The evidence provided in GUD No. 9791 in support of those transactions supports the transaction in this proceeding and provides a basis for the findings required by Section 104.055(b) of the GURA. It is reasonable to rely on GUD No. 9791 as the parties to the settlement agreement make specific reference to that docket.⁴⁸

The evidence provided in that case was that services are provided to the Texas Coast Division by CenterPoint Energy Services Company, Inc., CenterPoint Energy Houston Electric, LLC, and other divisions of CenterPoint Energy Resources Corp. As noted by Ms. Gauger in GUD No. 9791, if a service can be specifically identified as being solely for the benefit of the Texas Coast Division, the costs are assigned 100% to the Texas Coast Division. However, the vast majority of affiliate service billings are allocated to the Texas Coast Division based on customer ratios. With the exception of meter reading expenses, the ratios that were approved in GUD No. 9791 have been applied in this proceeding, as required by the COSA – 2 tariff. In the case of meter reading, the same methodology used to determine meter reading expenses was applied in this case.

The evidence in GUD No. 9791 was that the services provided by CenterPoint's affiliates are reasonable and necessary. They include Executive Management functions, Finance, Audit Services, Legal, Human Resources,

⁴⁸ CenterPoint Ex. 2, Direct Testimony of Scott E. Doyle, Exhibit SED – 1, p. 6, para. 5.

Government Affairs, Communications, Information Technology, Business Support Services, Regulated Operation's Management, data circuit management, land base management, scanning and indexing services, billing support, customer and marketing services, engineering services, meter shop operations, environmental compliance, financial planning and reporting services, administrative oversight, gas volume administration services, gas supply and transportation, and logistic services. The Examiners find that these are all services that are reasonable and necessary to the provision of safe and reliable natural gas service. Furthermore, the company has established that the prices charged to CenterPoint are no higher than the prices charged for the same service to other affiliates or divisions or to non-affiliated persons.

8. Termination of COSA – 2

As noted above, the COSA – 2 tariff was initially approved as part of the settlement by the parties in response to a *Statement of Intent* filed March 6, 2008. By its terms, the COSA – 2 tariff has an initial period of three years beginning August 1, 2009 and ending July 31, 2012. The COSA – 2 tariff, at Paragraph A, provides that the COSA – 2 tariff is automatically renewed for successive three-year periods unless either CenterPoint or a regulatory authority with original jurisdiction notifies the other by February 1st of the third year of any three-year period of the non-renewal of the COSA tariff for the subsequent three-year period. On February 1, 2011, CenterPoint received notice that the following Texas Coast Division cities opted not to renew the applicable COSA tariff beyond the initial three-year term: Alvin, Clear Lake Shore, Dickenson, Freindswood, Kemah, La

Marque, Lake Jackson, Mont Belview, Morgan's Point, Rosenberg, Santa Fe, Seabrook, Sugar Land, Taylor Lake Village, and Texas City.⁴⁹

9. Rate Case Expenses

Rule 7.5530 provides that in any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Texas Utilities Code, §103.022(b), shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence. Each gas utility and/or municipality shall detail and itemize all rate case expenses and allocations and shall provide evidence showing the reasonableness of the cost of all professional services, including but not limited to:

- (1) the amount of work done;
- (2) the time and labor required to accomplish the work;
- (3) the nature, extent, and difficulty of the work done;
- (4) the originality of the work;
- (5) the charges by others for work of the same or similar nature; and
- (6) any other factors taken into account in setting the amount of the compensation.

Furthermore, Commission rules mandate that in determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including but not limited to those set out previously, and shall also consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both the complexity of the issues in the proceeding and the amount of the increase sought as well as the amount of any increase granted.

⁴⁹ GUD No. 10075, Findings of Fact Nos. 55 – 59.

CenterPoint and the GCCC municipalities submitted evidence in support of their respective rate case expenses and the amounts requested are set out in Table 4, below.

Table 4
Rate Case Expense Request

Party	Initial Filing Actual	Actual Appeal	Estimated	Total/Party
CenterPoint	\$3,790.63	\$67,862.32	\$15,000.00	\$86,652.95
GCCC	\$36,564.92	\$47,056.86	\$30,000.00	\$113,621.76
Totals	\$40,355.55	\$114,919.18	\$45,000.00	\$200,274.71

As initially proposed, on a system-wide basis, the proposed rates would have resulted in an increase of \$914,910. As modified and approved by the Commission in GUD No. 10075 on a system-wide basis the rates sought to be implemented in this proceeding would have resulted in an increase in revenues of \$853,506. The rates approved in this case apply exclusively to the GCCC municipalities. As applied to those municipalities, the rate increase requested, those rates that were approved in GUD No. 10075, result in an increase in revenues of \$381,413.⁵⁰ The rate case expenses appear to be commensurate with the increase at issue in this proceeding.

The Examiners also find that several of the issues raised by GCCC were squarely within the scope of a COSA tariff review. For example, the issue of including a factoring expense is a reasonable issue to address within the context of this filing. As noted above, CenterPoint established that the factoring expense is reasonable in order to maintain a receivables facility. Similarly, the question of

⁵⁰ CenterPoint Ex. 1, Petition for Review, p. 3.

whether the payroll expense level was reasonable is within the scope of a COSA tariff filing. Again, CenterPoint established that the payroll expense level was just and reasonable.

The Examiners are concerned, however, that there appeared to be certain duplication of effort or that certain issues raised were simply not relevant to this proceeding. The Final Order in GUD No. 10075 was issued on July 26, 2011. This appeal was filed on August 10, 2011. At that juncture, CenterPoint abandoned its initial request and requested that the rates approved in GUD No. 10075 be approved in this proceeding. GCCC filed its testimony on October 7, 2011. Initial Briefs were filed on November 14, 2011, and Reply Briefs were filed on November 21, 2011. GCCC raised ten distinct issues related to the company's cost of service calculation.⁵¹ Four of those issues were not necessary as they were already addressed by the Commission in GUD No. 10075. GCCC did not withdraw its argument related to those issues and included arguments in support of those issues in briefing. Indeed, in briefing, GCCC appeared to ignore, to some extent, the current CenterPoint request.⁵²

The Examiners recommend that the rate case expense request of the GCCC municipalities be adjusted. A reasonable adjustment would be based upon a percentage of the relevant issues. As 60% of the issues raised were not previously addressed by the Commission in GUD No. 10075, and were still being urged by CenterPoint, the Examiners recommend that the rate case expense request of the municipalities be reduced by 40%. It would be reasonable, to require that an

⁵¹ Three issues were raised in the context of cash working capital (Issues 1 – 3), three issues were raised in the context of accumulated deferred income taxes (Issues 4 – 6), meter reading expenses (Issue 7), payroll expenses (Issue 8), Incentive Compensation (Issue 9), and other employee expenses (Issue 10).

⁵² "In the instant case, CenterPoint seeks an increase of 1.8% over test year revenues, equating to a revenue increase of \$914,910." GCCC Initial Brief, p. 2. CenterPoint observed as follows: "GCCC continues to argue for recommendations that have already been made and for adjustments that are already incorporated into the proposed rates. It is unclear what is driving this need to put on evidence and provide briefing on issues already decided in GCCC's favor." CenterPoint Reply Brief, p. 3.

additional adjustment to the rate case expense of the municipalities be made to reflect the fact that the company was required to respond to those issues.

The 40% adjustment should not be applied to expenses related to the initial filing. Those expenses were incurred prior to the issuance of the July 26, 2011 Final Order in GUD No. 10075. The adjustment should, however, be applied to the total actual expenses on appeal. The total expenses incurred by the parties to this proceeding after the filing of the appeal were \$114,919.18 and 40% of that amount is \$45,967.97. The Examiners recommend that the municipal expenses be adjusted by that amount.

The actual expenses of the municipalities were \$83,621.78. The Examiners recommend that this amount be adjusted by \$45,967.97. Thus, the recovery of actual rate case expenses of GCCC should be limited to \$37,653.81. The total actual and estimated expense of GCCC should be limited to \$67,653.81. The Examiners recommend that the company be allowed to recover amounts already reimbursed to the municipalities totaling \$36,564.92 and all of its rate case expenses actual and estimated rate case expenses totaling \$86,652.95.

In summary, the Examiners recommend that CenterPoint be permitted to recover its actual and estimated rate case expenses. Furthermore, the Examiners recommend that CenterPoint be permitted to recover the expenses reimbursed to the cities for their initial review of the COSA adjustment pursuant to the provision of the COSA – 2 tariff. The Examiners recommend, however, that the rate case expense request of the GCCC municipalities be limited to \$67,653.81 in actual and estimated rate case expense. Thus, the total rate case expense request in this case should be limited to \$154,306.76.

10. Conclusion

CenterPoint has established that the proposed COSA adjustment is just and reasonable and that it is consistent with the provisions of the COSA tariff and Commission precedent. Additionally, the company has established that its rate case expense request, including actual and estimated expenses, of \$86,652.95 is just and reasonable and that it is entitled to recover amounts reimbursed to the GCCC municipalities in the amount of \$36,565.92. GCCC has not established that its rate case expense request of \$113,621.76 is just and reasonable. Accordingly, the Examiners recommend that its requested rate case expense recovery be rejected and its rate case expenses be limited to \$67,653.81.

Respectfully submitted,



Gene Montes
Hearings Examiner
Office of General Counsel



Lynne LeMon
Technical Examiner
Gas Services Division

AUG/08/2008/FRI 09:49 AM CITY OF ALVIN, TEXAS

FAX No. 2813884294

P. 002

ORDINANCE NO. 08-CC

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF ALVIN, TEXAS, APPROVING A SETTLEMENT AGREEMENT BETWEEN THE GULF COAST COALITION OF CITIES AND CENTERPOINT ENERGY ENTEX REGARDING THE COMPANY'S STATEMENT OF INTENT TO CHANGE GAS RATES IN ALL CITIES EXERCISING ORIGINAL JURISDICTION; DECLARING EXISTING RATES TO BE UNREASONABLE; ADOPTING TARIFFS THAT REFLECT RATE ADJUSTMENTS CONSISTENT WITH THE SETTLEMENT AGREEMENT AND FINDING THE RATES TO BE SET BY THE ATTACHED TARIFFS TO BE JUST AND REASONABLE; ADOPTING A SAVINGS CLAUSE; DECLARING AN EFFECTIVE DATE; REPEALING ANY PRIOR ORDINANCES INCONSISTENT WITH THIS ORDINANCE AND REQUIRING DELIVERY OF THIS ORDINANCE TO THE COMPANY AND LEGAL COUNSEL.

WHEREAS, the City of Alvin, Texas ("City") is a gas utility customer of CenterPoint Energy Entex, Texas Coast Division ("CenterPoint" or "the Company"), and a regulatory authority with an interest in the rates and charges of CenterPoint; and

WHEREAS, on or about March 6, 2008, CenterPoint, pursuant to Gas Utility Regulatory Act § 104.102, filed with the City a Statement of Intent to increase system-wide gas rates by approximately \$7.36 million, such increase to be effective in all municipalities exercising original jurisdiction within its Texas Coast Division service area effective on April 10, 2008; and

WHEREAS, the City took action to suspend the April 10, 2008 effective date and to coordinate a response to CenterPoint's filing with 14 other similarly situated municipalities through the Gulf Coast Coalition of Cities ("GCCC") (such participating cities are referred to herein as "GCCC"); and

WHEREAS, CenterPoint has agreed to extend the April 10, 2008 effective date such that the City has a reasonable amount of time to take action on this matter; and

WHEREAS, the GCCC desires to avoid the litigation expense that would result from a lengthy contested rate case proceeding before the RRC and through the appellate process; and

WHEREAS, GCCC members authorized its attorneys and experts to formulate and review reasonable settlement positions to resolve the pending rate increase request; and

WHEREAS, GCCC attorneys met numerous times with the Company to negotiate a Settlement Agreement resolving the issues raised in the Company's Statement of Intent filing; and

PFD APPENDIX 1

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FAX No. 2813884294

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WHEREAS, the GCCC attorneys and experts believe existing rates are unreasonable and should be changed; and

WHEREAS, the GCCC attorneys and experts recommend GCCC members approve the negotiated Settlement Agreement and attached tariffs; and

WHEREAS, the attached tariffs provide for an expedited rate review process as a substitute to the current GRIP process instituted by the Legislature; and

WHEREAS, the attached tariffs implementing new rates are consistent with the Settlement Agreement and are just, reasonable, and in the public interest; and

WHEREAS, it is the intention of the parties that GCCC receive the benefit of any Settlement Agreement that CenterPoint enters into with other entities arising out of its Statement of Intent or any associated appeals of a decision entered by the Railroad Commission regarding the Company's request to increase rates; and

WHEREAS, the Settlement Agreement as a whole is in the public interest.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF ALVIN, TEXAS:

Section 1. That the findings set forth in this Ordinance are hereby in all things approved.

Section 2. That the City Council finds that the Settlement Agreement, which is attached hereto and incorporated herein as Attachment A, is in the public interest and is hereby endorsed in all respects.

Section 3. That existing rates for natural gas service provided by CenterPoint are unreasonable and new tariffs, which are attached hereto and incorporated herein as Attachment B, are just and reasonable and are hereby adopted.

Section 4. That to the extent any resolution or ordinance previously adopted by the Council is inconsistent with this Ordinance, it is hereby repealed.

Section 5. That the meeting at which this Ordinance was approved was in all things conducted in strict compliance with the Texas Open Meetings Act, Texas Government Code, Chapter 551.

Section 6. That if any one or more sections or clauses of this Ordinance is adjudged to be unconstitutional or invalid, such judgment shall not affect, impair or invalidate the remaining provisions of this Ordinance and the remaining provisions of the Ordinance shall be interpreted as if the offending section or clause never existed.

Section 7. That if GCCC determines that the overall rates, revenues, terms and conditions, or benefits resulting from a Final Order or any benefit resulting from a subsequent Settlement Agreement approved in any proceeding addressing the issues raised in CenterPoints' Statement

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of Intent would be more beneficial to GCCC than the terms of the attached Settlement Agreement, then the more favorable rates, revenues, terms and conditions, or benefits shall additionally accrue to GCCC.

Section 8. That this Ordinance shall become effective from and after its passage with rates authorized by attached Tariffs to be effective for customer bills delivered on or after August 1, 2008.

Section 9. That a copy of this Ordinance shall be sent to the Company, care of Denise Hardcastle at CenterPoint Energy, P. O. Box 2628, Houston, Texas 77252-2628 and to Thomas Brocato, legal counsel to GCCC, at Lloyd Gosselink, P.O. Box 1725, Austin, Texas 78767-1725.

Section 10. Open Meetings Act. It is hereby officially found and determined that the meeting at which this ordinance was passed was open to the public as required and that public notice of the time, place and purpose of said meeting was given as required by the Open Meetings Act, Chapt. 551, Tex. Gov't Code.

PASSED and APPROVED on first reading on the 10 day of July 2008.

PASSED and APPROVED on second and final reading on the 31 day of July 2008.

ATTEST:

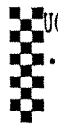
CITY OF ALVIN, TEXAS:

By:

Thomas W. Peebles
Thomas W. Peebles, City Clerk

By:

Gary Appelt
Gary Appelt, Mayor



UG/08/2008/FRI 09:53 AM CITY OF ALVIN, TEXAS

FAX No. 2813884294

P. 005/032

ATTACHMENT "A"

AUG/08/2008/FRI 09:54 AM CITY OF ALVIN, TEXAS FAX No. 2813884294

P. 006/032

ATTACHMENT A
Attorney Client Privilege
Attorney Work Product

STATEMENT OF INTENT FILED BY
CENTERPOINT ENERGY RESOURCES CORP. D/B/A CENTERPOINT ENERGY
ENTEX AND CENTERPOINT ENERGY TEXAS GAS ON MARCH 6, 2008

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Entex and CenterPoint Energy Texas Gas ("CenterPoint") and the Gulf Coast Coalition of Cities ("GCCC") whose members include the Cities of Alvin, Clear Lake Shores, Dickinson, Friendswood, Kemah, Lake Jackson, La Marque, Mont Belvieu, Morgan's Point, Rosenberg, Santa Fe, Seabrook, Sugarland, Taylor Lake Village, Texas City collectively "GCCC Cities").

WHEREAS, this Settlement Agreement resolves all issues relating to the CenterPoint Statement of Intent filed with the GCCC Cities on March 6, 2008, in a manner that CenterPoint and GCCC (collectively "the Signatories") believe is consistent with the public interest, and the Signatories represent diverse interests;

WHEREAS, the Signatories believe that a fully contested hearing in the case would be time-consuming and entail substantial additional expense for all parties and that the public interest will be served by adoption of an ordinance consistent with the Settlement Agreement;

NOW, THEREFORE, in consideration of the mutual agreements and covenants established herein, the Signatories, through their undersigned representatives, agree to and recommend for approval by the GCCC Cities the following Settlement Terms as a means of fully resolving all issues raised in the March 6, 2008 Statement of Intent filed by CenterPoint on behalf of its Texas Coast Division:

Settlement Terms

1. CenterPoint and the GCCC Cities agree to the rates, terms and conditions reflected in the tariffs attached to this Settlement Agreement as Exhibit A. Said tariffs should allow CenterPoint an additional \$3.38 million in annual revenue by implementation of rates shown in the proof of revenues attached as Exhibit A. CenterPoint and the GCCC Cities further agree that the rates, terms and conditions reflected in Exhibit A to this Settlement Agreement comply with the rate-setting requirements of Chapter 104 of the Texas Utilities Code. The gas rates, terms and conditions established by this Settlement Agreement shall be effective for bills rendered on or after August 1, 2008.
2. Included as part of Exhibit A is a Cost of Service Adjustment ("COSA") tariff (Rate Schedule No. COSA-2) that provides for an annual rate adjustment to reflect changes in operating and maintenance expense, depreciation expense, other taxes expense, and revenues as well as changes in capital investment and associated changes in gross revenue related taxes.

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~~responsible for any other rate case expenses associated with CenterPoint's 2008~~
Statement of Intent or GUD Docket No. 9791.

7. CenterPoint and the GCCC Cities agree that within a reasonable time period the GCCC Cities shall adopt ordinances approving the Settlement Agreement and establish rates and services for the GCCC Cities consistent with those set forth in Exhibit A to this Settlement Agreement. The Signatories agree to make good faith efforts to encourage each GCCC City to adopt an ordinance approving the Settlement Agreement within a reasonable time period.
8. The Signatories agree that the terms of the Settlement Agreement are interdependent and indivisible, and that if any GCCC City enters an order that is inconsistent with this Settlement Agreement, then any Signatory may withdraw with regard to such GCCC City without being deemed to have waived any procedural right or to have taken any substantive position on any fact or issue by virtue of that Signatory's entry into the Settlement Agreement or its subsequent withdrawal.
9. The Signatories agree that all negotiations, discussion, and conferences related to the Settlement Agreement are privileged, inadmissible, and not relevant to prove any issues associated with the March 6, 2008 Statement of Intent filed by CenterPoint on behalf of its Texas Coast Division pursuant to Texas law.
10. The Signatories agree that neither this Settlement Agreement nor any oral or written statements made during the course of settlement negotiations may be used for any purpose other than as necessary to support the entry by the GCCC Cities of an order implementing this Settlement Agreement.
11. The Signatories agree that this Settlement Agreement is binding on each Signatory only for the purpose of settling the issues set forth herein and for no other purposes, and, except to the extent the Settlement Agreement governs a Signatory's rights and obligations for future periods, this Settlement Agreement shall not be binding or precedential upon a Signatory outside this proceeding.
12. The Signatories agree that this Settlement Agreement may be executed in multiple counterparts and may be filed with facsimile signatures.

Agreed to this 3rd day of July, 2008.

CENTERPOINT ENERGY RESOURCES, INC.

By:

Richard A. Zapalac
Regional Vice President Gas Operations

GULF COAST COALITION OF CITIES

AUG/08/2008/FRI 09:55 AM CITY OF ALVIN, TEXAS FAX No. 2813884294 P. 009/032

By:

Thomas Brocato
Attorney for Gulf Coast Coalition of Cities

AUG/08/2008/FRI 09:55 AM CITY OF ALVIN, TEXAS FAX No. 2813884294 P. 010/032

ATTACHMENT "B"

AUG/08/2008/FRI 09:55 AM CITY OF ALVIN, TEXAS

FAX No. 2813884294

P. 011/032

CenterPoint Energy Entex
Texas Coast Division
Rate Design

Line No.	Particulars	Total	Residential	Commercial	
				Small	Large
1	Settlement	\$46,794,609	\$42,357,882	\$ 3,262,575	\$1,174,352
2	Current Margin Received				\$1,980,728
3	Transferred to Residential	\$ -	\$ 1,772,388	\$ -	\$ 772,388
4	Total Rate Design Cost of Service	\$46,794,609	\$41,585,294	\$ 3,262,575	\$1,946,740
5	Less:				
6	Houston Prompt Payment	\$ 17,430	\$ 14,904	\$ 795	\$ 1,731
7	Houston Division Margin				
8	Customer Charge	\$ 430,812	\$ 351,036	\$ 31,216	\$ 48,360
9	Distribution Charge	\$ 113,266	\$ 38,358	\$ 15,318	\$ 59,592
10	Total - Customers on Houston Rates in Texas Coast	\$ 581,308	\$ 404,296	\$ 47,329	\$ 109,883
11	Net Cost of Service to be Collected from TxCoast	\$46,233,301	\$41,180,998	\$ 3,215,246	\$1,837,057
12	Net Customer Charge Cost of Service	38,884,759	36,819,831	1,790,488	274,351
13	Number Bills	2,797,538	2,644,880	146,160	6,518
14					
15	Design Customer Charge		13.00	13.00	13.00
16	Customer Charge Revenue	\$38,367,968	\$34,383,180	\$ 1,900,080	\$ 84,708
17	Net Distribution Charge Revenue Required	\$ 9,885,333	\$ 6,797,819	\$ 1,315,168	\$1,752,349
18	Block Billing Determinants				
19	Block 1			8,491,220	8,626,800
20	Block 2			12,253,800	12,718,773
21	Block 3			-	5,549,851
22	Total Billing Determinants		83,892,530	18,745,020	26,895,424
23	Block Rates				
24	Block 1: all Ccf		\$ 0.07240		
25					
26	Block 1: 0-150 Ccf			\$ 0.08500	
27	Block 2: 151+ Ccf			\$ 0.06230	
28	Block 1: 0-1500 Ccf				\$ 0.08440
29	Block 2: 1501 - 10,000 Ccf				\$ 0.05880
30	Block 3: 10,001 Ccf				\$ 0.04980
31	Distribution Charge Revenue		6,797,819	551,754	728,102
32	Block 1		-	763,412	747,864
33	Block 2		-	-	278,383
34	Block 3		-	-	-
35	Total Distribution Charge Revenue	9,885,334	6,797,819	1,315,168	1,752,349
36	Total Revenue - Design	48,794,610	41,585,295	3,262,575	1,946,740
37	Miscellaneous Gas Service Revenue	2,641,980	1,802,920	837,060	2,000
	TOTAL	\$48,436,590	\$43,388,215	\$ 4,099,635	\$1,948,740
38	Current Revenue (Note 1)	\$46,058,078	\$40,213,831	\$3,913,083	\$1,831,162
39	Increase	\$ 3,378,514	\$ 3,174,384	\$ 186,572	\$ 17,558

Notes

See GCCC 3-12U. On the CD supplied to GCCC, there is a file called:
TxCoast Rebill - for filing Adjusted rev Feb 28 2008.xls
On the tab "Margin" which is in this file (without links) shows the calculation of non gas margin.
Note that gas cost and revenue related taxes are subtracted from revenue to compute non gas margin.
To the non-gas margin amount, forfeited discounts and miscellaneous service charges are added to arrive at the total current revenue listed above.

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CenterPoint Energy Entex
Texas Coast Division
Margin

Based on Twelve Months ended September 2007 Data

Ln No.	(A)	(B)	(C)	(D)	(E)	Total
		Residential	Small Commercial	Large Commercial	Industrial	
1	Total Adjusted Revenues	\$132,355,023	\$23,882,520	\$20,125,922	\$7,147,290	\$183,490,755
2	Total Adjusted Gas Cost	91,138,484	20,080,328	18,187,852	8,477,592	135,892,036
3	Total Adj. Gross Receipts Taxes	3,907,568	777,825	828,713	132,222	5,444,328
4	Total Adjusted Margin	\$37,310,991	\$2,994,367	\$1,311,557	\$537,476	\$42,154,391

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SCHEDULE
TAX ADJUSTMENT
RATE SCHEDULE NO. TA-6

The Customers shall reimburse the Company for the Customers' proportionate part of any tax, charge, impost, assessment or fee (except state, county, city, and special district ad valorem taxes and income taxes) levied upon the Company with respect to the Gas Service provided to Customers by Company and any associated facilities involved in the performance of such Gas Service (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 Texas Coast 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 which 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.

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-----CENTERPOINT ENERGY RESOURCES CORP.-----
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
FRANCHISE FEE ADJUSTMENT
RATE SCHEDULE NO. FFA-1

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.

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-SMALL
RATE SCHEDULE NO. GSS-1073

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 - \$13.00;

(2) Commodity Charge -
First 150 Ccf \$0.0850
Over 150 Ccf \$0.0623

(b) 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.

(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.

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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CENTERPOINT ENERGY RESOURCES CORP.
 D/B/A CENTERPOINT ENERGY ENTEX
 AND CENTERPOINT ENERGY TEXAS GAS
 TEXAS COAST DIVISION
 RATE SHEET

SCHEDULE OF MISCELLANEOUS SERVICE CHARGES
 RATE SCHEDULE NO. MISC-8

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 finalized (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) | \$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 other related costs) | |
| 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 | \$20 |
| 13. | Returned check | \$20 |

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION

RATE SHEET
SCHEDULE OF MISCELLANEOUS SERVICE CHARGES
RATE SCHEDULE NO. MISC-8

DEPOSITS

Up to the maximum amount allowed under the Railroad Commission of Texas Quality of Service Rule §7.15(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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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION

RATE SHEET

PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-6

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:

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

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

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, 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.
- 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 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 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

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AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION

RATE SHEET

PURCHASED GAS ADJUSTMENT
RATE SCHEDULE NO. PGA-4

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; and (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 the rate of interest applicable to customer deposits.

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
COST OF SERVICE ADJUSTMENT
RATE SCHEDULE NO. COSA-2

A. APPLICABILITY

This Cost of Service Adjustment Clause applies to the Residential Service, General Service - Small, and General Service - Large Volume rate schedules of CenterPoint Energy Texas Gas currently in force in the Company's Texas Coast Division service area. All rate calculations under this tariff shall be made on a Texas Coast Division system wide basis. If, through the implementation of the provisions of this mechanism, it is determined that rates should be decreased or increased, then rates will be adjusted accordingly in the manner set forth herein. The rate adjustments implemented under this mechanism will reflect annual changes in the Company's cost of service and rate base as computed herein. This Rate Schedule No. COSA-2 is authorized for an initial implementation period of three (3) years commencing with the Company's filing under this rate schedule for the calendar year 2008, effective August 1, 2009, and ending with the implementation of the rate adjustment, if any, for the calendar year 2010, effective August 1, 2011; and shall automatically renew for successive three year periods unless either the Company or the regulatory authority having original jurisdiction gives written notice to the contrary to the other by February 1, 2011, or February 1, of the third filing year of any succeeding three year renewal period.

B. EFFECTIVE DATE

Rate adjustments shall be made in accordance with the procedures described below on an annual basis. The Company shall make its annual filing no later than May 1, with the rate adjustments to be effective with the bills rendered on or after August 1st of each year. The first filing pursuant to this Rider shall be no later than May 1, 2009, and shall be based on the financial results for the calendar year ending December 31, 2008.

C. COMPONENTS OF THE RATE ADJUSTMENT

Calculation of the rate adjustment will be based on calendar year operating expenses, return on investment, and Texas Franchise Tax. The calendar year operating expenses shall be those reported to the Railroad Commission of Texas in the annual report of the Company. The rate adjustment shall be included in the monthly customer charge of the Residential Service, General Service - Small, and General Service - Large Volume rate schedules. Company shall file with each regulatory authority having original jurisdiction over the Company's rates the schedules specified below, by FERC Account, for the prior calendar year period. The schedules will be based upon the Company's audited financial data, as adjusted, and provided in a format that will allow for the same analysis as that undertaken of a Company Statement of Intent Filing. Sample schedules are attached as Exhibit A, to this tariff and shall include the following information:

C.1 Operating Expenses - Operating expenses will be determined by the ending amounts for the applicable calendar year.

The applicable expenses are:

Depreciation and Amortization Expense (Account Nos. 403-407)*
Taxes Other Than FIT (Account No. 408)**
Operation and Maintenance Expenses (Account Nos. 870-894)
Customer Related Expenses (Account Nos. 901-916)
Administrative & General Expenses (Account Nos. 920-932)
Interest on Customer Deposits (Account No. 431)

* Based on the last approved depreciation methods and lives.

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
COST OF SERVICE ADJUSTMENT
RATE SCHEDULE NO. COSA-2

** Excluding City Franchise Fees, Gross Receipts, and any other revenue-based tax. Rate adjustments due to changes in revenue-based taxes will be governed by the Company's Tax Adjustment and Municipal Franchise Fee Rate Schedules.

This information will be presented with supporting calculations. The Company shall provide additional information for all operating expenses upon request by the regulatory authority during the ninety (90) day review period specified in Section D.

C.2 Return on Investment - The return on investment is the pre-tax rate of return (11.8%) multiplied by the rate base balance for the applicable calendar year.

The rate base balance is composed of:

Net Utility Plant in Service*

Plus:

Storage Gas**

Plus:

Other Rate Base Items:**

Materials and Supplies Inventories

Prepayments

Cash Working Capital

Less:

Customer Deposits (Account No. 235)

Customer Advances (Account No. 252)

Deferred Federal Income Taxes

* Net Utility Plant in Service as shown by FERC account adjusted to exclude asset retirement obligation amounts. Gross utility plant in service and accumulated depreciation by account will be shown separately by month so that an annual average utility plant in service can be calculated.

** These items will reflect the 13 month average materials and supplies inventories, storage gas inventories, and prepayments. The Company shall perform a lead/lag study for the initial filing under this tariff and at least once every three (3) years thereafter.

Supporting information for all rate base items shall be provided to the regulatory authority during the ninety (90) day review period specified in Section D upon request to the Company.

C.3 Texas Franchise Tax - The Texas Franchise Tax will be the calendar year-end amount as recorded in FERC Account No. 409.

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D/B/A CENTERPOINT ENERGY ENTEX
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TEXAS COAST DIVISION
RATE SHEET
COST OF SERVICE ADJUSTMENT
RATE SCHEDULE NO. COSA-2

C.4 Cost of Service Adjustment The amount to be collected through the Cost of Service Adjustment will be the sum of the amounts from Sections C.1, C.2, and C.3, less the calendar year actual non-gas revenue and other revenue (i.e., transportation revenue and service charges), adjusted for the revised Texas Franchise Tax described in Chapter 171 of the Texas Tax Code.

The formula to calculate the Cost of Service Adjustment is:

$(C.1 \text{ Operating Expenses} + C.2 \text{ Return on Investment} + C.3 \text{ Texas Franchise Tax} - \text{Actual non-Gas and Other Revenues}) \div (1 - \text{Texas Franchise Tax statutory rate})^*$

* Currently, the Texas Franchise Tax statutory rate is 1%.

C.5 Cost of Service Adjustment Rate

The Cost of Service Adjustment as calculated in Section C.4 will be allocated among the customer classes in the same manner as the cost of service was allocated among classes of customers in the Company's latest effective rates for the Texas Coast Division. The cost of service adjustment for each customer class will then be converted into a per-customer per-month amount to produce the Cost of Service Adjustment Rate. The per customer adjustment will be the Cost of Service Adjustment as allocated to that class, divided by the average number of gas sales customers in each class for the Texas Coast Division as reported in the Company's annual report to the Railroad Commission of Texas. The Cost of Service Adjustment Rate will be this per customer adjustment amount divided by 12 to produce a monthly adjustment amount, either an increase or decrease, which will be included in the Residential Service, General Service - Small, and General Service - Large Volume customer charges. Any change in the Cost of Service Adjustment shall not exceed an amount equal to five percent (5%) of the Customer Charge effective for service in the Texas Coast Division at the end of the calendar year immediately preceding the year in which the Cost of Service Adjustment is made, provided that the costs for the Company to perform a lead-lag study, provide public notice and reimburse City rate case expenses as required herein, up to an amount not to exceed \$250,000, shall not be included in calculating the (5%) limitation.

In order to meet Generally Accepted Accounting Principles and U.S. Securities and Exchange Commission reporting requirements, the Company shall record its best estimate of the total amount to be collected through the Cost of Service Adjustment so as to reflect in its books and records a fair representation of actual earnings for that year. Such estimate shall not be included in the computation of the Cost of Service Adjustment.

C.6 Attestation

A sworn statement shall be filed by the Company's Chief Accounting Officer of CenterPoint Energy Texas Gas Operations, affirming that the filed schedules are in compliance with the provisions of this tariff and are true and correct to the best of his/her knowledge, information, and belief. No testimony shall be filed.

C.7 Proof of Revenues

The Company shall also provide a schedule demonstrating the "proof of revenues" relied upon to calculate the proposed cost of service adjustment rate. The proposed rates shall conform as closely as practicable to the revenue allocation principles in effect prior to the adjustment.

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
COST OF SERVICE ADJUSTMENT
RATE SCHEDULE NO. COSA-2

C.8 Notice

Notice of the annual Cost of Service Adjustment shall be published in the Houston Chronicle in a form similar to that required under Section 104.103, TEX. UTIL. CODE ANN. no later than forty-five (45) days after the Company makes its annual filing pursuant to this rate schedule with the regulatory authority. The notice to customers shall include the following information:

- a) a description of the proposed revision of rates and schedules;
- b) the effect the proposed revision of rates is expected to have on the rates applicable to each customer class and on an average bill for each affected customer class;
- c) the service area or areas in which the proposed rate adjustment would apply;
- d) the date the proposed rate adjustment was filed with the regulatory authority; and
- e) the Company's address, telephone number, and website where information concerning the proposed cost of service adjustment may be obtained.

D. REGULATORY REVIEW OF ANNUAL RATE ADJUSTMENT

The regulatory authority with original jurisdiction will have a period of not less than ninety (90) days within which to review the proposed annual rate adjustment. During the review period, Company shall provide additional information and supporting documents as requested by the regulatory authority and such information shall be provided within ten (10) working days of the original request.

The rate adjustment shall take effect with the bills rendered on or after August 1st of each year. This Cost of Service Adjustment Rate Schedule does not limit the legal rights and duties of the regulatory authority. The Company's annual rate adjustment will be made in accordance with all applicable laws. If at the end of the ninety (90) day review period, the Company and the regulatory authority with original jurisdiction have not reached agreement on the proposed Cost of Service Adjustment Rate, the regulatory authority may take action to deny such adjustment, and the Company shall have the right to appeal the regulatory authority's action. Upon the filing of any appeal the Company shall have the right to implement the proposed Cost of Service Adjustment Rate, subject to refund.

To defray the cost, if any, of regulatory authorities conducting a review of Company's annual rate adjustment, Company shall reimburse the regulatory authorities for their reasonable expenses for such review in an aggregate amount not to exceed \$100,000. Any reimbursement contemplated hereunder shall be deemed a reasonable and necessary operating expense of the Company in the year in which the reimbursement is made. If more than one regulatory authority should request reimbursement in any year, each regulatory authority shall receive the lesser of its reasonable and necessary expenses for conducting its review or an amount equal to \$100,000 multiplied by the fraction of which the numerator is the total number of customers subject to the original jurisdiction of the regulatory authority seeking reimbursement and the denominator of which is the total number of customers subject to the jurisdiction of all regulatory authorities seeking reimbursement for review of an annual rate adjustment.

A regulatory authority seeking reimbursement under this provision, shall submit its request for reimbursement to Company no later than September 1st of the year in which the adjustment is made and Company shall reimburse

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
COST OF SERVICE ADJUSTMENT
RATE SCHEDULE NO. COSA-2

regulatory authorities in accordance with this provision on or before September 15th. of the year the adjustment is made.

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CenterPoint Energy
Texas Coast Division
Cost of Service Adjustment
For the Period Ended

LINE NO.	(A) DESCRIPTION	(B) AMOUNT
1	Operating Expenses	
2	Return On Investment	
3	Texas Margin Tax	
4	Sub-total	\$ -
5	Less: Actual Non-Gas Revenues	
6	Sub-total	\$ -
7	Texas Margin Tax Adjustment Factor	0.99
8	Cost of Service Adjustment (Line 6 + Line 7)	\$ -
9	Number of Gas Sales Customers - avg	
10	Cost of Service Adjustment per Customer - Annual (Line 8 + Line 9)	
11	Cost of Service Adjustment Rate (Line 10 + 12)	

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CenterPoint Energy
Texas Coast Division
Cost of Service Adjustment Clause
Return on Investment - Revenue Requirement
For the Year Ended

Line No.	(A) Description	(B)
1	Total Net Plant	
	Add: Working Capital	
2	Cash Working Capital	
3	Materials and Supplies	
4	Storage Gas	
5	Prepayments	
6	Total Working Capital	\$ -
	Less:	
7	Customer Deposits and Advances	
8	Accumulated Deferred Income Taxes	
9	Total Rate Base	\$ -
10	Pre-Tax Rate of Return	
11	Return On Investment - Revenue Requirement	\$ -

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CenterPoint Energy
Texas Coast Division
For the Year Ended

Cost of Service Adjustment

(A)

(B)

Ln. No.	Description	Test Year
<u>Operating Revenues</u>		
1	Gas Sales	
2	Other Revenues	
3	Total Operating Revenues	\$ -
<u>Operating Revenue Deductions</u>		
<u>Operating Expenses</u>		
4	Gas Purchases	
5	Distribution Operations Expense	
6	Distribution Maintenance Expense	
7	Customer Accounts Expense	
8	Customer Information Expense	
9	Sales Expenses	
10	Administrative & General Expense	
11	Total Operating Expense	\$ -
12	Depreciation Expense	
13	Taxes Other than Income	
14	Total Operating Revenue Deductions	\$ -
15	Net Operating Income	
16	Before FIT	\$ -

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CenterPoint Energy
Texas Coast Division
Cost of Service Adjustment
Texas Margin Tax
For The Year Ended

Line No.	(A)	(B)
1	Gross Revenues	
2	Cost of Gas	
3	Gross Receipts	
4		\$ -
5	Texas Margin Tax Percentage	1%
6	Texas Margin Tax Percentage	\$ -

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY KENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
RESIDENTIAL SERVICE
RATE SCHEDULE NO. R-2073

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 \$13.00;
- (2) Commodity Charge -
All Ccf \$0.0724

(b) 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.

(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.

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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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSI-V-604

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 \$13.00;
- (2) Commodity Charge

First 1,500 Ccf	\$0.0844
1,500 10,000 Ccf	\$0.0588
Over 10,000 Ccf	\$0.0498

(b) 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.

(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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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
- TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSLV-604

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 14.65 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.

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

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CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSLV-604

- (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.



RAILROAD COMMISSION OF TEXAS

OFFICE OF GENERAL COUNSEL

GUD NO. 9902

STATEMENT OF INTENT OF CENTERPOINT ENERGY CORP.

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THE STATE OF TEXAS

Susan M. Kelly and Larry Buch, Assistant Attorney General
Office of the Attorney General
Public Agency Representation Section



e. Accumulated Deferred Income Tax (ADIT)

(A) Introduction

As noted on Table 5.1 above, part of the utility's calculation of total rate base is the calculation of the accumulated deferred income tax. The net calculation is added or subtracted from the total net plant. All parties agree that an adjustment for the net of credits and debits related to accumulated deferred income taxes should be made to total net plant. CenterPoint

reported accumulated deferred income tax level of \$52,727,129, and that calculation is summarized in Table 5.7, below.

Table 5.7
Accumulated Deferred Income Taxes

Line No.	Description	Original	Rebuttal
	Current Portion of Deferred Provision		
1	Total Employee Benefit Accruals	\$ (93,667)	\$ (109,530)
2	Total Miscellaneous Expenses (Bad Debt)	1,526,415	381,034
3	Total Current Assets / (Liabilities)		
	NonCurrent Portion of Deferred Provision		
4	Total Employee Benefit Accruals	12,408,627	12,333,100
5	Total Indemnifications & Other Reserves	2,546,948	2,863,109
6	Total Deferred Gas Costs	(1,252,287)	2,649,068
7	Taxes in Excess of Book Depreciation	(55,266,033)	(59,048,032)
8	Contributions in Aid of Construction	13,535,587	15,100,487
9	Gain or Loss on Sale of Assets	(3,960,107)	(5,256,551)
10	Tax Overhead Capitalization	(1,443,485)	(1,791,881)
11	Removal Costs	(2,289,587)	(2,893,442)
12	Ike Hurricane Deduction/Rate Case Expense	2,547,443	691,158
13	Deductible Repairs & Maintenance/481 (a) adj		(16,794,752)
14	Miscellaneous Reserves		-
15	Other	(127,074)	(116,933)
16	Total Deferred State Income Taxes	195,914	384,142
18	Total Noncurrent Assets / Liabilities		
19	Totals		
20	State Deferred Income Tax	(579,481)	(1,118,106)
21	Total Deferred Income Tax	\$ (32,250,517)	\$ (52,727,129)

As explained above, however, because the Examiners have recommended that the September 29, 2009 filing be rejected, the appropriate accumulated deferred income tax expense is the calculation that most closely matches the dates in reflecting adoption of the other rate base components. Accordingly, that figure is \$32,250,517. As already noted, the effect is to increase rate base by \$20,476,612. Consequently, the increase to the revenue requirement to be recovered from the standard rate classes is \$2,538,151.

The City of Houston/Houston Coalition of Cities argued that accumulated deferred income taxes were not correctly calculated and challenged the accumulated deferred income tax associated with the following accounts: (1) Total Miscellaneous Expense (Bad Debt), (2) total employee benefit accruals, (3) total indemnifications and other reserves, (4) Ike Hurricane Deduction/Rate case expense, and (5) total deferred state income taxes.⁸⁷

As is evident from Table 5.7 above, accumulated deferred income taxes can give rise to a credit or a debit. Deferred taxes arise because of timing differences between recognition of certain items for book purposes versus tax purposes.⁸⁸ The parties agree that a credit operates

⁸⁷ Although there are two entries related to income taxes for purposes of the proposed adjustment they were treated as one category.

⁸⁸ Natural Gas Rate Review Handbook, p. 18.

as a decrease to rate base and that it represents a cost-free source of capital. The parties also agree that a debit represents tax payments that the utility has funded before they are collected from customers.

An example of an accumulated deferred income tax *credit* that is not disputed is the entry for taxes in excess of book depreciation at line 7 of Table 5.7. For ratemaking purposes, the utility collected an amount of depreciation expense and associated taxes from ratepayers. The amount collected is predicated upon the useful life of the asset using the straight-line method of depreciation. On the other hand, for income tax purposes, accelerated depreciation methods are allowed resulting in a utility paying less income tax. Ratepayers pay the income tax rates as if accelerated tax depreciation benefits did not exist. The result is that the company enjoys the benefit of the difference between the actual taxes paid and the amount collected from ratepayers. This in essence, is a cost-free source of capital and is deducted from rate base, as reflected on Table 5.7.⁸⁹

An example of an accumulated deferred income tax *debit* that is not disputed is the entry for accumulated taxes for contributions in aid of construction, at line 8 of Table 5.7, above. Certain ratepayers make contributions to the utility for the construction of specific facilities, which are used to serve that particular customer or customers. The income for contributions in aid construction operates as a reduction to plant costs. The payments from the customers are part of the company's revenue stream and are considered taxable income. As a result, the company was required to pay taxes. Those taxes, however, were not part of the previously approved rates and, in essence, the shareholder was required to provide the funds to pay the taxes. Accordingly, it is included as a debit entry for accumulated deferred income tax. It operates to increase rate base and the company should receive a return on those funds.

(B) Appropriate Treatment of ADIT.

Introduction

The first issue faced by the Commission in this context is the appropriate treatment of accumulated deferred income tax debits. Hugh Larkin, who testified on behalf of the City of Houston/Houston Coalition of Cities, essentially argued that the treatment of debits in five areas by CenterPoint was inappropriate. Those five areas will be discussed in more detail below and the allegation regarding the proper treatment of the entry for accumulated deferred income taxes is similar. The Commission must first evaluate the issues raised regarding the proper treatment of accumulated deferred income tax debits. That determination will guide the Commission's decision regarding the specific entries challenged.

Issues Raised by the Intervenors

Mr. Larkin contended that unless the revenue stream that gave rise to the tax liability has not actually been used or otherwise deducted from rate base, CenterPoint should not be allowed to earn a return on the taxes paid. His basic rationale for this approach is as follows. The

⁸⁹ City of Houston/Houston Coalition of Cities Ex. 5, Direct Testimony of Hugh Larkin, p. 3, ln. 5 – p. 4, ln. 15 and CenterPoint Ex. 15, Rebuttal Testimony of David Weaver, p. 5, lns. 8 – 10 & p. 6, lns. 1 – 3.

company received funds from ratepayers. Those funds are in excess of the associated tax liability. Until those funds are consumed or otherwise deducted from rate base the company is not required to provide additional funds in excess of the amounts collected from customers, to pay taxes. Mr. Larkin provided an example using a *Catastrophic Storm Damage Reserve* that has accumulated \$50,000,000. Assuming a combined tax rate for that fund of 35%, the tax liability would be \$17,500,000. Until those the \$50,000,000 are consumed or otherwise deducted from rate base, those funds are available to pay the tax liability of \$17,500,000 and the company was not required to provide any additional dollars to meet its tax obligations. In Mr. Larkin's view, including the tax liability in rate base through the accumulated deferred income tax account would result in the ratepayer having to pay a return on funds (\$17,500,000) it has supplied. In the case of contributions in aid of construction, Mr. Larkin noted that once those funds are deducted from rate base, it would be appropriate to include the associated taxes as a liability. By matching the use of the funds or reduction to rate base with the associated taxes, the ratepayer will not be required to pay a return on funds the ratepayer has provided.

Mr. Larkin contended that no regulatory authority allows inclusions of an accumulated deferred income tax debit without a deduction from rate base of the associated ratepayer supplied reserve. Instead of arguing that the entire ratepayer supply reserved accrual should be deducted from rate base, he is proposing that only associated debit entered in the accumulated deferred income tax account be deducted. Furthermore, he argued that in a recent proceeding involving CenterPoint the State of Mississippi treated deferred taxes involving in the manner proposed here.⁹⁰

CenterPoint Response

David Weaver, CenterPoint's Vice-President of Tax testified in response to the issues raised by Mr. Larkin. He argued that Mr. Larkin was wrong and asserted that the accumulated deferred income tax debits identified by Mr. Larkin are reflected in the utility's rate base in recognition of the higher current taxable income and higher cash taxes that have been paid to the government. He contended that there is no basis for Mr. Larkin's position, that an ADIT debit should increase rate base only if the corresponding liability has been deducted from rate base. Instead he argued that the company's practice of increasing rate base by accumulated deferred income tax debits that the utility reflects on its accounting books and records is appropriate. The rationale for that practice is that debits are included in rate base because CenterPoint, through its shareholders and through borrowing, has funded the payment of taxes before they are collected from rates.⁹¹

Examiners' Recommendation

The utility has not established that its practice of including an accumulated deferred income tax debit in rate base is reasonable where the revenue that gave rise to the tax liability has not been deducted from rate base. As stated by Mr. Weaver, accumulated deferred income tax debits are included in rate base because the company, through its shareholder and through borrowing has funded the payment of taxes before they are collected from rates. To the extent that the revenues that gave rise to the corresponding tax liability have not been expended or

⁹⁰ City of Houston/Houston Coalition of Cities, Ex. 5, Direct Testimony of Hugh Larkin, p. 6, Ins. 18 - 23.

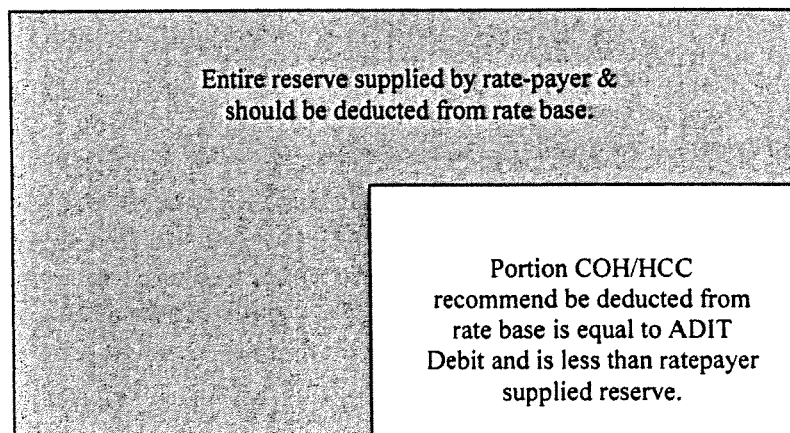
⁹¹ CenterPoint Ex. 15, Rebuttal Testimony of David Weaver, p. 3, Ins. 12,- 15 & p. 5, Ins. 17 - 18.

otherwise deducted from rate base, there is no need for the company's shareholder to provide additional funds to pay the tax liability as the ratepayer has provided those funds and they are available to satisfy the tax liability. It is only when those funds are deducted from rate base that the company has a deficit. It is at that moment that the utility must turn to the shareholder or borrow additional revenues to recover the dollars that have been expended.

The utility's argument ignores the fact that the ratepayers have provided the funding necessary to satisfy the corresponding tax liability. Mr. Weaver stated that the company has increased rate base by accumulated deferred income tax debits that the utility reflected on its accounting books and records. This rigid reliance on the entry in the books and records ignores the fact that the funds necessary to pay the corresponding tax liability are available from the ratepayers unless the revenues that generated the liability have been deducted from rate base or otherwise expended. While Mr. Weaver's testimony may be relevant to the entries in the books and records it ignores the fact that funds that ratepayers provided are available to pay the corresponding tax liability.

The City of Houston/Houston Coalition of Cities noted that Mr. Weaver admitted on the cross examination that he was not testifying in this case as to the rate-base treatment of accumulated deferred income taxes. Rather, he was only testifying as to the income tax effect.⁹² In many regards several of the issues raised by the Intervenor in this context were not addressed – including Mr. Larkin's allegation that other jurisdictions treat this issue as he described. The fundamental issue raised by Mr. Larkin was never addressed: A deduction from rate base of reserves supplied by the ratepayer has not been made. Mr. Larkin's proposal represents a compromise. Rather than recommending a deduction of the entire ratepayer supplied reserve he is recommending only the deduction of the associated accumulated deferred income tax debit. Figure 5.2 graphically, depicts the result of compromise position of the City of Houston/Houston Coalition of Cities.

Figure 5.2
Representation of Proposed Treatment of
Accumulated Deferred Income Tax Debits



⁹² City of Houston/Houston Coalition of Cities' Post Hearing Brief, pp. 12 – 13, citing to Tr. Vol. 3, p. 217. ("I am familiar with the calculation of [accumulated deferred income taxes] from an income tax standpoint. I don't handle how those items are otherwise covered from a rate case or ratemaking perspective.").

Mr. Weaver noted that the Examiners in GUD No. 9869, a case currently pending before the Commission, rejected a similar proposal made by Mr. Larkin in that case. There the Examiners concluded that Mr. Larkin's testimony was not sufficient to allow the Examiners to recommend the Commission's adoptions of his proposed changes.⁹³ Of course, the evidence presented must be evaluated on a case-by-case basis and an issue-by-issue basis

(C) Total Miscellaneous Expense (Bad Debt)

Introduction

Mr. Weaver testified that CenterPoint accrued a reserve for bad debt expense.⁹⁴ CenterPoint included an ADIT debit in the Houston rate base in the amount of \$381,034 for taxes associated with the Bad Debt Reserve.⁹⁵

Issues Raised by Intervenors

Mr. Larkin testified that the utility acknowledged that the Bad Debt reserve is not included in rate base and he asserted that the bad debt reserve would operate to reduce rate base. He also asserted that ratepayers have supplied the entire amount for the reserve and the ratepayers have supplied funds to pay the income tax. To include the debit balance for the accumulated deferred income tax while excluding the bad debt reserve from the rate base is not proper matching.⁹⁶

CenterPoint Response

In response, Mr. Weaver argued that bad debts are not deductible when accrued. Rather bad debt accounts are deductible when written off the books and the utility has abandoned efforts to collect the account. Thus, the amounts accrued by the company for bad debts have not been deducted for tax purposes and the company has incurred higher current taxable income and higher cash taxes have been paid to the government.

Examiners' Recommendation

CenterPoint has not established that a debit entry in accumulated deferred income taxes for this account is reasonable. The ratepayer has provided funds for the accumulated reserve. The accumulated reserve has not been reduced from rate base or otherwise expended. As a result funds are available to meet the current tax liability created by the reserve fund. Ratepayers provided those funds. Including a debit entry in accumulated deferred income taxes for this account would have the effect of requiring the ratepayer to pay a carrying charge on funds they have provided that are available to meet the company's current tax liability. The stand-alone impact of this recommendation is to reduce the proposed revenue requirement by \$47,231.

⁹³ CenterPoint Ex. 15, Rebuttal Testimony of David Weaver, p. 14, lns. 10 – 22.

⁹⁴ CenterPoint Ex. 15, Rebuttal Testimony of David Weaver, p. 9, lns. 18 – 21.

⁹⁵ CenterPoint Ex. 1, Rebuttal Schedule 2i.

⁹⁶ City of Houston and Houston Coalition of Cities, p. 9, ln. 1 – p. 10, ln. 2.

(D) Total Employee Benefit Accruals*Introduction*

CenterPoint included an accumulated deferred income tax debit of \$12,333,100 that has the effect of increasing rate base.⁹⁷ The City of Houston/Houston Coalition of Cities have challenged the proposed inclusion of a debit entry as an accumulated deferred income tax item. The figure included in the original filing was \$12,408,627 and Mr. Larkin's testimony is directed at the entry included in the original filing, not the rebuttal filing made three working days prior to the commencement of the hearing.⁹⁸ Nevertheless, the issues raised regarding the original entry appear to be relevant to the amount included in the rebuttal filing.

Issues Raised by the Intervenors

Mr. Larkin testified that the tax liability identified is the result of the accrual of employee benefits that have not been paid. The accrual was funded by rates collected from ratepayers. He contended that it would be inappropriate for ratemaking purposes to ask the ratepayer to pay a carrying charge on the tax on related accumulated deferred income tax debit balance without simultaneously reflecting the related accumulated liability for accrued but not yet paid employee benefits as an offset to rate base.⁹⁹

CenterPoint Response

Mr. Weaver testified that for tax purposes an accrual is not deductible until an actual payment is made to a participant or a trust funding the benefits. Thus, the amount accrued by the utility for benefits has not been deducted for tax purposes. As a result, he contended that CenterPoint has incurred higher current taxable income and that higher cash taxes have been paid to the government. He asserted that the utility will recover the cash taxes in future periods when benefits are paid to participants or funded into a trust. The impact of this recommendation on the revenue requirement to be recovered from the standard rate classes is \$1,528,733.

Examiners' Recommendation

CenterPoint has not established that a debit entry in accumulated deferred income taxes for this account is reasonable. The ratepayer has provided funds for the reserve. The accumulated reserve has not been reduced from rate base or otherwise expended. As a result funds are available to meet the current tax liability created by the reserve fund. Ratepayers provided those funds. Including a debit entry in accumulated deferred income taxes for this account would have the effect of requiring the ratepayer to pay a carrying charge on funds they have provided that are available to meet the company's current tax liability. The impact of this recommendation on the revenue requirement to be recovered from that standard rate classes is \$1,528,733.

⁹⁷ CenterPoint Ex. 1, Rebuttal Schedule 2i.

⁹⁸ City of Houston/Houston Coalition of Cities Ex. 5, Direct Testimony of Hugh Larkin p. 10, lns. 5 – 6.

⁹⁹ City of Houston/Houston Coalition of Cities Ex. 5, Direct Testimony of Hugh Larkin, p. 10, ln. 4 – 11, ln. 2.

(E) Total Indemnifications and Other Reserves*Introduction*

CenterPoint included an accumulated deferred income tax debit of \$2,863,109 that has the effect of increasing rate base.¹⁰⁰ The City of Houston/Houston Coalition of Cities has challenged the proposed inclusion of a debit entry as an accumulated deferred income tax item. The figure included in the original filing was \$2,546,948 and Mr. Larkin's testimony is directed at the entry included in the original filing, not the rebuttal filing made three working days prior to the commencement of the hearing.¹⁰¹ Nevertheless, the issues raised regarding the original entry appear to be relevant to the amount included in the rebuttal filing.

Issues Raised by the Intervenors

Mr. Larkin inferred that these deferred income tax dollars are related to reserves akin to storm reserves and he noted no deduction from rate base related to those reserves.¹⁰² He concluded that the customers have provided the funds for that reserve and because the funds have not been deducted from rate base it would be inappropriate to impose a carrying charge to the customer for funds they have provided.

CenterPoint Response

Mr. Weaver responded that expenses to build up reserves are not deductible when accrued and that they become deductible when the underlying cost is actually paid. The amount accrued by the company has incurred higher current taxable income and higher cash taxes have been paid to the government. The utility will recover those higher cash taxes in future periods when the underlying expenses related to those reserves are paid. Until that time, additional taxes have been paid to the government.¹⁰³

Examiners' Recommendation

CenterPoint has not established that a debit entry in accumulated deferred income taxes for this account is reasonable. The ratepayer has provided funds for the reserve. The accumulated reserve has not been reduced from rate base or otherwise expended. As a result funds are available to meet the current tax liability created by the reserve fund. Ratepayers provided those funds. Including a debit entry in accumulated deferred income taxes for this account would have the effect of requiring the ratepayer to pay a carrying charge on funds they have provided that are available to meet the company's current tax liability. The impact of this recommendation on the revenue requirement to be recovered from the standard rate classes is \$354,893.

¹⁰⁰ CenterPoint Ex. 1 Rebuttal Schedule 2i.

¹⁰¹ City of Houston/Houston Coalition of Cities Ex. 5. p. 11, lns. 4 – 15.

¹⁰² *Id.*

¹⁰³ CenterPoint Ex. 15, Direct Testimony of David Weaver, p. 11, lns. 1 – 20.

(F) Rate Case Expense*Introduction*

CenterPoint included an accumulated deferred income tax debit of \$691,158 that has the effect of increasing rate base.¹⁰⁴ The City of Houston/Houston Coalition of Cities has challenged the proposed inclusion of a debit entry as an accumulated deferred income tax item. The figure included in the original filing was \$2,547,443 and Mr. Larkin's testimony is directed at the entry included in the original filing, not the rebuttal filing made three working days prior to the commencement of the hearing.¹⁰⁵ Nevertheless, the issues raised regarding the original entry appear to be relevant to the amount included in the rebuttal filing.

Issues Raised by the Intervenors

Mr. Larken asserted that the reserve that imposed the alleged tax liability has been deducted from rate base. He argued that there was no clear explanation of why this accumulated deferred income tax debit balance has arisen nor why ratepayers should be responsible of it.¹⁰⁶ In their Initial Brief, the City of Houston/Houston Coalition of Cities, contended that the analysis provided by Mr. Weaver in rebuttal reveals that the fund related to an over-collection of franchise fees receipts and taxes. The result is that the utility seeks to charge ratepayers an additional amount in rate base additions for an over-recovery of gross receipts tax. They conclude by stating that requesting ratepayers to pay a carrying charge on the tax on an over-recovery the ratepayers have already paid is absurd.¹⁰⁷

CenterPoint Response

Mr. Weaver's testimony related to this proposed adjustment is related to the \$2,547,443 debit entry for accumulated deferred income taxes included in the original filing. He stated that Mr. Larkin's understanding of the rate case expense category is not accurate. The utility's debit related to rate case expense in the original filing is made up of two items that net to \$2,547,443: (a) a \$3,546,438 accumulated deferred income tax debit to the general ledger account 22118 for over/under recovery of franchise and gross receipts taxes; and (2) a \$998,995 accumulated deferred income tax credit related to regular rate case expense in the general ledger account 179030. The balance in general ledger account 221148 represented an over recovery of city franchise tax and Railroad Commission of Texas assessment taxes. He asserted that over recovery is taxable when collected from rate-payers and as a result higher cash taxes have been paid to the government. The utility will recover those higher cash taxes in future periods when the underlying expenses related to those reserves are paid. Until that time, additional taxes have been paid to the government. He concluded that the proposed disallowance "of \$2,547,443 for ADIT related to Rate Case Expense accruals should not be made."¹⁰⁸

¹⁰⁴ CenterPoint Ex. 1, Rebuttal Schedule 2i.

¹⁰⁵ City of Houston/Houston Coalition of Cities Ex. 5 p. 11, lns. 4 – 15.

¹⁰⁶ City of Houston/Houston Coalition of Cities Ex. 5, Direct Testimony of Hugh Larkin, p. 12, ln. 17 – p. 13, ln. 12.

¹⁰⁷ City of Houston/Houston Coalition of Cities Initial Brief, p. 17.

¹⁰⁸ CenterPoint Ex. 15, Direct Testimony of David Weaver, p. 13, lns. 3 – 5.

Examiners' Recommendation

CenterPoint has not established that a debit entry in accumulated deferred income taxes for this account is reasonable. The ratepayer has provided funds for the reserve. The accumulated reserve has not been reduced from rate base or otherwise expended. In this case, the reserve is the result of over-recovered taxes and the funds are available to meet the current tax liability created by the reserve fund. Ratepayers provided those funds. Including a debit entry in accumulated deferred income taxes for this account would have the effect of requiring the ratepayer to pay a carrying charge on funds they have provided that are available to meet the company's current tax liability. The impact of this recommendation on the revenue requirement to be recovered from that standard rate classes is \$1,528,733.

Additionally, the Examiners note that there appears to be some confusion on the part of CenterPoint regarding this adjustment that was generated, in part, by its late rebuttal filing. Namely, Mr. Weaver and the City of Houston and the Houston Coalition of Cities in the initial brief continue to refer to the proposed adjustment as totaling \$2,547,443. Mr. Weaver's testimony is directed at establishing the reasonableness of this amount and he discussed figures that were in evidence in support of that calculation.¹⁰⁹ He refers to the two items that make up that make up this amount. A \$3,546,438 ADIT debit and a \$10,132,681 ADIT credit. These figures can be traced to CenterPoint Ex. 1, Schedule 2i, Workpaper 2i/1 p. 7 of 15. The figure included in the rebuttal is \$691,158. No documentation was provided to support the calculation of that contested item and the Examiners are unable to evaluate that figure.

(G) Deferred State Income Taxes

Introduction

CenterPoint included an accumulated deferred income tax debit of \$384,142 that has the effect of increasing rate base. CenterPoint also included an accumulated deferred income tax credit of \$1,118,106 that has the effect of reducing rate base.¹¹⁰ The City of Houston/Houston Coalition of Cities has challenged the proposed inclusion of any accumulated deferred income tax amounts related to state income taxes. The figure included in the original filing was \$195,914 as a debit and \$579,481 as a credit entry to accumulated deferred income taxes. Mr. Larkin's testimony is directed at the entry included in the original filing, not the rebuttal filing made three working days prior to the commencement of the hearing.¹¹¹ Nevertheless, the issues raised regarding the original entry appear to be relevant to the amount included in the rebuttal filing. .

¹⁰⁹ CenterPoint Ex. 15, Direct Testimony of David Weaver p. 12, lns. 16 – 18. He refers to the two items that make up that make up this amount. A \$3,546,438 ADIT debit and a \$10,132,681 ADIT credit. These figures can be traced to CenterPoint Ex. 1 Schedule 2i, Workpaper 2i/1 p. 7 of 15.

¹¹⁰ CenterPoint Ex. 1 Rebuttal Schedule 2i. .

¹¹¹ City of Houston and Houston Coalition of Cities Ex. 5, Direct Testimony of Hugh Larkin p. 11, lns. 4 – 15.

Issues Raised by the Intervenor

Mr. Larkin testified that the State of Texas does not have a state income tax and that even though the net of the two balances favor the ratepayer he has removed the proposed adjustment because there is no state income tax which should be deferred related to any Texas operating expense or accrued liability.¹¹²

CenterPoint Response

Mr. Weaver rebuttal testimony is again directed at the figures included in the initial filing not at the figures included in the rebuttal filing. He asserted in response to Mr. Larkin's allegation that the State of Texas does not have an income tax that for GAAP financial accounting purposes, that the Texas margin tax is considered an income tax. As an income tax, he asserted the Company was correct to reduce rate base by deferred state income tax credits and to increase rate base by deferred state income tax debits.¹¹³

Examiners' Recommendation

The Examiners recommend that entry for an accumulated deferred debit as a result of State Income taxes be removed. The CenterPoint witness failed to address what activities resulted in this debit and whether the associated funds that gave rise to the liability have been deducted from rate base. The net impact of this adjustment is to increase the rate request. Thus, the impact of this recommendation on the revenue requirement to be recovered from the standard rate classes is an increase of \$85,672

6. Operating Expenses**a. Labor Expenses**

Charles Dean Wood, Vice President of Human Resources testified that CenterPoint views compensation plans and levels from a "total compensation" perspective. Thus, the company measures all of the components that make up employees' total compensation. The company benchmarks those components against peer companies to ensure that the compensation plans and levels are adequate. The components of "total compensation" are (1) base pay, (2) short term incentives,¹¹⁴ (3) long term incentives,¹¹⁵ and (4) benefits. Mr. Wood testified that additional research is conducted to compare the total compensation offered by CenterPoint with national, regional, and local trends.¹¹⁶ The same principles apply to executive and non-executive positions.¹¹⁷

Employees of CenterPoint and its affiliates are offered the following benefits: (1) Health and welfare, (2) retirement, (3) savings plan, (4) postretirement, and (5) post-

¹¹² *Id.*

¹¹³ CenterPoint Ex. 15, Direct Rebuttal Testimony of David Weaver, p. 13, lns. 6 – 16.

¹¹⁴ CenterPoint Ex. 14, Direct Testimony of Charles Dean Woods, p. 4, ln 19 – p. 6, ln. 10.

¹¹⁵ CenterPoint Ex. 14, Direct Testimony of Charles Dean Woods, p. 6, ln. 11 – p.

¹¹⁶ CenterPoint Ex. 14, Direct Testimony of Charles Dean Woods, p. 3.

¹¹⁷ CenterPoint Ex. 14, Direct Testimony of Charles Dean Woods, p. 4, lns. 1 – 8.

**BEFORE THE
RAILROAD COMMISSION OF TEXAS**

**APPEAL OF CENTERPOINT ENERGY §
RESOURCES CORP., D/B/A §
CENTERPOINT ENERGY ENTEX AND §
CENTERPOINT ENERGY TEXAS GAS §
FROM THE ACTIONS OF THE CITIES §
OF ALVIN, CLEAR LAKE SHORES, §
DICKINSON, FRIENDSWOOD, KEMAH, §
LA MARQUE, LAKE JACKSON, §
MANVEL, MONT BELVIEU, §
MORGAN'S POINT, ROSENBERG, §
SANTA FE, SEABROOK, SUGAR LAND, §
TAYLOR LAKE VILLAGE AND TEXAS §
CITY, TEXAS §**

**GAS UTILITIES DOCKET
No. 10106**

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. 2010). 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 Utilities Code.
2. On August 10, 2011, CenterPoint filed this appeal of actions taken by the cities of Alvin, Clear Lake Shores, Dickinson, Friendswood, Kemah, La Marque, Lake Jackson, Manvel, Mont Belvieu, Morgan's Point, Rosenberg, Santa Fe, Seabrook, Sugarland, Taylor Lake Village and Texas City denying the company's proposed cost of service adjustment ("COSA - 2") for 2010.
3. Collectively the cities of Alvin, Clear Lake Shores, Dickinson, Friendswood, Kemah, La Marque, Lake Jackson, Manvel, Mont Belvieu, Morgan's Point, Rosenberg, Santa Fe, Seabrook, Sugarland, Taylor Lake Village and Texas City are referred to as the Gulf Coast Coalition of Cities ("GCCC").
4. On April 29, 2011, CenterPoint filed with the GCCC municipalities an application to modify the cost of service adjustment (COSA) described in the existing COSA - 2 tariff applicable to natural gas customers within those municipalities.

5. Through these applications, CenterPoint initially proposed to establish a monthly cost of service adjustment increase of \$.36 for residential customers, \$.54 for small commercial customers and \$2.03 for large volume customers, effective August 1, 2011.
6. In addition to the COSA filings made with the municipalities, CenterPoint filed a COSA application with the Commission and that case was docketed as GUD No. 10075. The COSA application was intended to adjust rates for the following municipalities that ceded jurisdiction to the Commission: Danbury, El Lago, Hitchcock, Jones Creek, and Richwood.

COSA background

7. The COSA – 2 tariff was first approved by the Commission as part of a settlement agreement between the GCCC municipalities and CenterPoint in 2008.
8. The COSA – 2 tariff approved as part of that settlement establishes a procedure whereby CenterPoint annually proposes adjustments to its Texas Coast Division customer charges for natural gas distribution service. The adjustments account for changes in CenterPoint's cost of service as calculated according to a formula in the tariff.

Notice

9. The COSA-2 tariff, at Para. C.8, establishes that newspaper notice of an annual adjustment proposed by CenterPoint must be published in the Houston Chronicle no later than 45 days after the date CenterPoint files its annual COSA application with the Commission.
10. For the COSA applications filed in these proceedings, CenterPoint's 45-day notice deadline was June 13, 2011.
11. On June 1, 2011, CenterPoint filed a copy of the notice published in the Houston Chronicle and an *Affidavit of Publication* affirming that notice was published in the Houston Chronicle on Saturday, May 28, 2011.
12. CenterPoint's COSA – 2 notice was timely published on May 28, 2011 before the 45-day deadline for publication of notice on June 13, 2011.
13. In addition to published notice, CenterPoint made the COSA docket materials available to the public on May 27, 2011 via a posting on the company's website at www.centerpointenergy.com/cosa.

Rate Request

14. On July 15, 2011, CenterPoint revised its requested COSA-2 adjustments following discussions with the Commission's Staff. The revised proposed COSA-2 adjustments were as follows:

COSA-2 RATE INCREASES BASED UPON 2010 COST OF SERVICE

CUSTOMER CATEGORY	COSA-2
COSA-2, residential, per month	(\$.32)
COSA-2, small commercial, per month	(\$.50)
COSA-2, large volume, per month	(\$1.76)

15. The revised COSA – 2 adjustments proposed in CenterPoint's revised tariff filed on July 15, 2011 are just and reasonable and consistent with the terms of the COSA – 2 tariff and applicable Commission orders and were approved by the Commission in GUD No. 10075.
16. CenterPoint requested that the rate increases approved in GUD No. 10075, the rate increases set out in Finding of Fact No. 14, above, be approved in this appeal. These increases are added to CenterPoint's Customer Charge.
17. The billing lag included in CenterPoint's cash working capital calculation was three days and no further adjustment is required.
18. The operation and maintenance lead included in CenterPoint's cash working capital calculation was consistent with GUD No. 9902 and no further adjustment is required.
19. CenterPoint maintains an accounts receivable facility designed to allow factoring of its accounts if factoring is reasonable.
20. During the test year CenterPoint did not factor any of its receivables and no persuasive evidence was presented that this determination was not just and reasonable.
21. Including the expenses of the account receivable facility is reasonable.
22. Based upon the circumstances of this case and the COSA – 2 tariff that was agreed to by GCCC and CenterPoint, the accumulated deferred income tax calculation is just and reasonable and is based upon the calendar year operating expenses as reported to the Railroad Commission of Texas in the annual report filed by CenterPoint.
23. The meter reading expenses are based upon the actual number of meters read and are the lowest meter reading expense of any CenterPoint operating division in Texas.
24. The salary levels requested by the company are just and reasonable and the evidence in the record supports the overall salary level of the company.

25. Evidence was not presented challenging the individual salary levels of any individual employee.
26. The short-term and long-term incentive compensation was calculated in accordance with precedent of the Commission.
27. Long-term incentive compensation was removed from the company's calculation of the cost of service adjustment in accordance with Commission precedent.
28. Short-term incentive compensation programs of the company included customer oriented goals and it was reasonable to include expenses in the cost of service calculation for those programs.
29. The employee expense request of the company was adjusted to exclude alcohol, food purchases for holiday parties, expenses associated with ball games, meals without documentation, meal expenses in excess of \$25 per person, meal expenses for charitable functions, and corporate allocation of meal expenses.
30. CenterPoint has established that the services provided by affiliates are just and reasonable and that the prices charged to CenterPoint are no higher than the prices charged for the same service to other affiliates or divisions or to non-affiliated persons.
31. Pursuant to the provisions of the COSA – 2 tariff the GCCC municipalities have opted to not renew the applicable COSA tariff.

Rate Case Expenses

32. CenterPoint has requested \$86,652.95 in rate case expenses. This includes \$71,652.95 in actual expenses and \$15,000 in estimated expenses required to complete these proceedings.
33. CenterPoint provided evidence in support of its rate case expenses and established that those expenses were just and reasonable.
34. CenterPoint has previously reimbursed the GCCC municipalities \$36,564.92 for expenses associated with the review of the COSA tariff at the municipal level.
35. GCCC has requested \$113,621.76 in rate case expenses. This includes \$83,621.78 in actual expenses and \$30,000 in estimated expenses required to complete these proceedings.
36. GCCC has already been reimbursed \$36,564.92 of its expenses by CenterPoint pursuant to the provisions the COSA tariff.
37. The amount of rate case expenses incurred by GCCC in this proceeding is not just and reasonable as GCCC urged many issues that were no longer requested by CenterPoint.

38. Many of the issues urged by GCCC challenging certain expenses of the company were adopted by the Commission in a parallel proceeding and CenterPoint no longer sought approval of those expenses in this proceeding.
39. CenterPoint was required to provide testimony and briefing to ensure that items already conceded were not removed again from the cost of service calculation.
40. An adjustment based upon the number of issues actually contested is reasonable.
41. GCCC presented ten issues: Three related to cash working capital, three related to accumulated deferred income taxes, four others related to meter reading expense, payroll expenses, incentive compensation, and other employee expenses.
42. Four of those issues were unnecessary as the cost of service calculation no longer included costs associated with those issues. Therefore, an adjustment to the rate case expenses of the GCCC municipalities based upon 40% of the actual appeal expenses of the parties is reasonable.
43. The actual appeal expenses of the parties was \$114,919.18, and 40% of that amount is \$45,967.67. Accordingly, the rate case expense request of the GCCC municipalities should be reduced that \$45,967.67
44. Accordingly, all rate case expenses requested by GCCC in excess of the \$67,654.09 is not just and reasonable. This represents \$37,654.09 in actual expenses and \$30,000 in estimated expenses.
45. It is reasonable that CenterPoint recover its actual rate case expenses and estimated rate case expenses, totaling up to \$86,652.95, plus amounts already reimbursed to the GCCC municipalities, in the amount of \$36,564.92, plus amounts to be reimbursed to GCCC totaling \$31,089.17, through a surcharge to customers within the GCCC municipalities over a one-year period.

CONCLUSIONS OF LAW

1. CenterPoint Energy Entex (CenterPoint) is a "Gas Utility" as defined in TEX. UTIL. CODE ANN. §101.003(7) (Vernon 2007 & Supp. 2010) and §121.001(2007) and is therefore subject to the jurisdiction of the Railroad Commission of Texas ("Commission").
2. The 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 & Supp. 2010).
3. Under TEX. UTIL. CODE ANN. §102.001 (Vernon 2007 & Supp. 2010), 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 appeal was 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 2008 & Supp. 2010) ("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. In any rate proceeding, any utility and/or municipality claiming reimbursement for its rate case expenses pursuant to Texas Utilities Code, §103.022(b), shall have the burden to prove the reasonableness of such rate case expenses by a preponderance of the evidence. Evidence must be provided related to, but not limited to, the amount of work done, the time and labor required to accomplish the work, the nature, extent, and difficulty of the work done, the originality of the work, the charges by others for work of the same or similar nature, and any other factor taken into account in setting the amount of the compensation. 16 TEX. ADMIN. CODE 7.5530(a).
7. In determining the reasonableness of the rate case expenses, the Commission shall consider all relevant factors including but not limited to those set out previously, and shall also consider whether the request for a rate change was warranted, whether there was duplication of services or testimony, whether the work was relevant and reasonably necessary to the proceeding, and whether the complexity and expense of the work was commensurate with both complexity of the issues in the proceeding and the amount of the increase sought as well as the amount of any increase granted. 16 TEX. ADMIN. CODE 7.5530(b).
8. The jurisdiction of the Commission in this case does not extend to municipalities that are not parties to this proceedings, TEX. UTIL. CODE ANN. §§ 102.001 and 103.055.

IT IS THEREFORE ORDERED that the attached tariffs are just and reasonable and hereby approved, including the rates, terms, and conditions included in said tariffs.

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 at 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 28th day of February, 2012.

RAILROAD COMMISSION OF TEXAS

CHAIRMAN ELIZABETH A. JONES

COMMISSIONER DAVID PORTER

COMMISSIONER BARRY T. SMITHERMAN

ATTEST:

SECRETARY

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
RESIDENTIAL SERVICE
RATE SCHEDULE NO. R-2086**

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 – \$14.69*;

(2) Commodity Charge –
All Ccf \$0.0724

(b) 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.

(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.

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.

* Settlement Charge	\$13.00
2008 COSA-2 Adjustment	.65
2009 COSA-2 Adjustment	.72
2010 COSA-2 Adjustment	<u>.32</u>
Total Customer Charge	\$14.69

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-SMALL
RATE SCHEDULE NO. GSS-2086**

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 – \$14.90*;
- (2) Commodity Charge –
 - First 150 Ccf \$0.0850
 - Over 150 Ccf \$0.0623

(b) 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.

(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.

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.

* Settlement Charge	\$13.00
2008 COSA-2 Adjustment	.65
2009 COSA-2 Adjustment	.75
2010 COSA-2 Adjustment	<u>.50</u>
Total Customer Charge	\$14.90

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSLV-617**

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 – \$16.96*;

(2) Commodity Charge –

First 1,500 Ccf	\$0.0844
1,500 – 10,000 Ccf	\$0.0588
Over 10,000 Ccf	\$0.0498

(b) 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.

(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.

* Settlement Charge	\$13.00
2008 COSA-2 Adjustment	.65
2009 COSA-2 Adjustment	1.55
2010 COSA-2 Adjustment	<u>1.76</u>
Total Customer Charge	\$16.96

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSLV-617**

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.

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 14.65 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.

**CENTERPOINT ENERGY RESOURCES CORP.
D/B/A CENTERPOINT ENERGY ENTEX
AND CENTERPOINT ENERGY TEXAS GAS
TEXAS COAST DIVISION
RATE SHEET
GENERAL SERVICE-LARGE VOLUME
RATE SCHEDULE NO. GSLV-617**

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.

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, F_{pv} , 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, F_{pv} , 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.

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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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TEXAS COAST DIVISION
RATE SHEET
RATE CASE EXPENSE RECOVERY RATE SCHEDULE NO. RCE-6**

APPLICATION OF SCHEDULE

This schedule is applicable to any customer served under residential, general service-small or general service-large rates schedules in the following cities:

Alvin, Clear Lake Shores, Dickinson, Friendswood, Kemah, Lake Jackson, La Marque, Manvel, Mont Belvieu, Morgan's Point, Rosenberg, Santa Fe, Seabrook, Sugar Land, Taylor Lake Village, Texas City.

This rate schedule is for the recovery of rate case expense and shall be in effect beginning on or after March 1, 2012 for a twelve month period or until all approved expenses are collected.

MONTHLY RATE

RECOVERY FACTOR:

Residential	\$ 0.17 per bill
General Service-Small	\$ 0.25 per bill
General Service-Large Volume	\$ 3.24 per bill

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.

COSA-2 COST OF SERVICE2009 review
expenses, not
subject to 5%
rate cap

OPERATING EXPENSES	1	Depreciation and amortization expense, Acct. Nos. 403-407	\$ 7,922,351	
	2	Taxes other than FIT, Acct. No. 408	\$ 2,276,518	
	3	Operations and maintenance expense, Acct. Nos. 870-894	\$ 13,288,671	
	4	Customer related expenses, Acct. Nos. 901-916	\$ 9,664,077	
	5	Admin & General expense, Acct. Nos. 920-932	\$ 11,633,904	
	6	Expense adjustments, Finding of Fact No. 36	\$ (148,156)	
	7	Factoring adjustment, Finding of Fact No. 37	\$ 194,632	
	8	Review costs, Finding of Fact No. 44	\$ 75,980	\$ 70,982
	9	C1 COSA OPERATING EXPENSES	\$ 44,907,977	

RETURN ON INVESTMENT	10	Net utility plant in service, by FERC account, adjusted to exclude asset retirement obligation amounts. Gross utility plant in service and accumulated depreciation by account are shown by month so that an annual average utility plant in service can be calculated.		
			\$ 117,620,900	
	11	Plus: storage gas inventories, 13-month avg (COSA-2 only)	\$ 7,871,675	
	12	Plus: materials and supplies inventories, 13-month avg	\$ 80,696	
	13	Plus: prepayments, 13-month avg	\$ 132,496	
	14	Plus: cash working capital, as adjusted, Finding of Fact No. 37	\$ (2,143,012)	
	15	Less: customer deposits, Acct. 235, and advances, Acct. 252	\$ (4,388,488)	
	16	Less: deferred federal income taxes	\$ (12,730,071)	
	17	TOTAL RATE BASE	\$ 106,444,196	
	18	Multiplied by: 11.8% pre-tax rate of return	11.8%	
	19	C2 COSA RETURN ON INVESTMENT	\$ 12,560,415	

TAX	20	C3 TEXAS FRANCHISE TAX, Acct. 409	\$ 143,107	
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ADJUSTMENT	21	C1 + C2 + C3	\$ 57,611,499	
	22	Less: calendar yr actual non-gas revenue	\$ (51,673,700)	
	23	Less: other revenue, adjusted	\$ (5,092,828)	
	24	SUBTOTAL	\$ 844,971	\$ 70,982
	25	Divided by: 1 - Texas Franchise Tax statutory rate of 1%	99%	99%
	26	C4 COST OF SERVICE ADJUSTMENT	\$ 853,506	\$ 71,699

RATES	27	C5 COSA RATE CALCULATION		
	28	TCD customers, residential	238,154	89,996
	29	TCD customers, small commercial	11,966	5,095
	30	TCD customers, large commercial	503	249
	31	Total TCD customers	250,623	95,340
	32	TCD percent allocation, residential	88.8677%	88.8677%
	33	TCD percent allocation, small commercial	6.9721%	6.9721%
	34	TCD percent allocation, large commercial	4.1602%	4.1602%
	35	Total	100.0000%	100.0000%
	36	TCD COSA allocation, residential	\$ 758,491	\$ 63,717
	37	TCD COSA allocation, small commercial	\$ 59,507	\$ 4,999
	38	TCD COSA allocation, large commercial	\$ 35,508	\$ 2,983
	39	TOTAL COSA, ALLOCATED BY CUSTOMER CLASS	\$ 853,506	\$ 71,699
	40	TCD COSA allocation per customer per month, residential	\$ 0.27	\$ 0.06
	41	TCD COSA allocation per customer per month, sm. Comm.	\$ 0.41	\$ 0.08
	42	TCD COSA allocation per customer per month, lg. Comm.	\$ 5.88	\$ 1.00

CAP	43	COSA CAP CALCULATION	
	44	COSA cap, residential, 5% of \$14.37	\$ 0.72
	45	COSA cap, small commercial, 5% of \$14.40	\$ 0.72
	46	COSA cap, large commercial, 5% of \$15.20	\$ 0.76

COSA-2			CURRENT RATE	WITH COSA ADDED
\$	0.32	\$	\$14.37	\$ 14.69
\$	0.50	\$	\$14.40	\$ 14.90
\$	1.76	\$	\$15.20	\$ 16.96