C2 CONSULTING SERVICES, INC.

7801 Pencross
Dallas, Texas 75248

(972) 726-7216
(972) 726-0212 (fax)

June 2, 2008

Mr. Thomas Brocato
Lloyd, Gosselink, Rochelle & Townsend, P.C.
816 Congress Avenue, Suite 1900
Austin, Texas 78701

Dear Mr. Brocato:

C2 Consulting Services, Inc. ("C2"), provides the following **preliminary** report concerning the evaluation of CenterPoint Energy's ("CNP or the "Company") Statement of Intent to change natural gas burner tip rates for the residential, commercial, and industrial customers served within the Texas Coast Division. The following discussion provides an overview of the Company's filing, the analyses performed, and preliminary recommendations with regard to potential regulatory actions under a total system approach.

This study does not constitute an examination of the financial condition of CNP or its parent company. As such, C2 cannot and does not express any position with regard to the accuracy or validity of the financial information provided by CNP during the course of the analyses. Additionally, any lack of discussion with regard to CNP's regulatory treatment of investment/costs does not necessarily indicate acquiescence by C2.

SUMMARY OF PRELIMINARY FINDINGS

The Company filed its Statement of Intent with the Gulf Coast Coalition of Cities ("GCCC") on or about March 6, 2008. Based on the filing, the Company is requesting a 34.7% overall increase in revenue from that reported at the test year end September 30, 2007 for the total system.[1] Excluding gas costs, the Company is requesting a 20.45% increase to the adjusted test year commodity and customer service revenue.

In summary, the analysis of the area wide information resulted in the following:

[1] The total system includes the special contract customers as identified by CNP.

The overall revenue for the Texas Coast Division should be reduced by $2,257,916 over the adjusted test year revenue. This compares to the Company requested overall increase of $7,357,609.

A. Analysis of Investment in CNP

Prior to the allocation of investment and expense to each of the customer classes served within the Texas Coast Division as performed by R.J. Covington Consulting, C2 evaluated the appropriateness of various components of CNP's proposed total investment in the system. As shown on Schedule 2, CNP proposes a net original cost of investment in the system of $123,860,033. C2 is recommending a net original cost of investment of $103,080,448; a reduction of $20,779,585. This summary reduction is comprised of five major issues with respect to CNP's proposal:

1. As shown on Schedule 2, the first recommended adjustment is to gross plant in service. The Company proposed a gross value of plant in service that includes "planned" net additions of $13,075,300 through December 2008 as well as $3,073,474. In C2's opinion, these additions are not known and measurable and do not necessarily match the level of revenue and expense proposed by the Company. With respect to the CWIP, many of the projects were not in service as of the test year end, and without a showing of financial integrity need, such plant construction should not be included.

   Due to the timing of the analysis, C2 has taken the per books gross plant in service as of the calendar year ended December 31, 2007. By using these plant balances, the investment is known and measurable and allows for those CWIP projects that were placed into service subsequent to September 30, 2007 but before December 31, 2007 to be included.

2. The second recommended adjustment is to the reserve for depreciation and amortization. C2 began with per books reserve for depreciation as of December 31, 2007 to match the recommended gross plant in service balances. This per books amount was adjusted to reflect one-half of C2's recommended adjustment to depreciation expense from test year end. The total adjustment reduces the reserve for depreciation by $4,901,456, thereby increasing the rate base.[2]

3. The third adjustment is to set the Cash Working Capital requirement to $0. The Company requested the use of a rather antiquated methodology of using one-eighth of operating expenses as a proxy for a cash working capital requirement. In most cases today, gas and electric companies use a lead lag methodology to more precisely determine such cash needs. In fact, the Public Utility Commission rules provide that without a lead lag study, companies will have their cash working capital requirement set at zero.

---

[2] It should be remembered that the Company increased the reserve for depreciation to reflect depreciation on the "planned" additions during 2008.

In this case, the Company did not provide a lead lag study, even though it did perform such a study for it's South Texas Division filing in 2006. Without such a study, C2 recommends that the GCCC follow the Public Utility Commission rules with respect to this issue. The recommended adjustment reduces the Company's proposed rate base by $3,578,189.

4. The fourth adjustment to rate base concerns the average balances of materials and supplies and prepayments. In order to reflect the most current information related to these costs, C2 has updated the average balances to include the 13 month balance through March 2008. The adjustment increases the prepayment requirements by $15,708 and reduces the requirement for materials and supplies by $25,768.

5. The final adjustment is related to the Company's proposed level of storage gas. According to information provided by the Company, it has amended its gas procurement contracts to include provisions for storing gas at several locations. The Company began storing such gas in April 2007. Significant amounts were added monthly until November 2007, when the Company began to use the inventory in its sale of gas.

   CNP proposed an inventory of storage gas of $21,584,014. This is based on estimated MMBtus and estimated costs through 2008. Again, the Company's proposal is not based on known and measurable inventory. C2 notes that one approach would be to look at historical information for several years to estimate an average balance requirement. However, since the procurement of such storage did not begin until half way into the test year, there is insufficient historical data on which to perform such an analysis. Therefore, C2 recommends that the actual balance for the latest month of data provided by the Company (January 2008) be used to set a storage gas inventory requirement of $11,589.099.

B. Analysis of Operating Expenses for CNP

As shown on CNP's Schedule 4a, CNP is proposing adjusted operating expenses before FIT of $37,512,374.[3] Based on C2's evaluation, the total system adjusted operating expenses before FIT for the test year should be $33,826,924 or $3,685,450 less than represented by the Company. The difference is comprised of thirteen recommended adjustments:

1. The first adjustment category involves the wages and salary expense. There are three components to this adjustment. First, the Company has proposed an adjusted base wage expense that reflects its budgeted expense through December 2008. This should not be allowed as it is not a known and measurable level of expense. Additionally, upon review of the base wage and salary of the Texas Coast Division for the last several years (starting

[3] This amount is comprised of depreciation expense, taxes other than income, distribution expense, customer accounting expense, and administrative and general expense. C2 notes that this is for the entire system, including "special contract" customers.

with the December 2005 expense) the Company has actually increased base wage and salaries by over 12.6% for its direct employees and by over 10.8% for those with allocated amounts charged to the Texas Coast Division (through December 2007). Assuming an annual compounding effect, this equates to an average increase per year (assuming two increases) of approximately 6.0% and 5.2% respectively.

C2 has been involved in two recent cases, one before the Railroad Commission of Texas and one before the Public Utility Commission of Texas, where in each case base wage increases greater than 3.5% per year were considered excessive. Therefore, C2 made an adjustment to reflect wages that would have been increased by 3.5% per year for two years rather than the unreasonable level of expense requested by the Company. The impact of this adjustment is to reduce expense by $720,206 for direct employees and reduce expense by $249,561 for allocated base wage and salary expense.

The second component involves the requested overtime wages. The Company is again requesting overtime expense for the budgeted 2008 year. Based on review of information provided by the Company, C2 determined that the percentage of overtime when compared to base salary was reasonable given historical information. However, because C2 recommends a lower base wage and salary expense, the percentage must be applied to a reasonable base level. The result of this computation is to reduce overtime expense for both the direct and allocated employees by $88,404.

The third component of the recommended adjustment is for incentive compensation. The Company has requested an additional 7% increase in base wages and salaries (when applied to the already over-inflated level of base payroll expense) if the financial performance of the Company is improved. This issue has been the subject of increased debate at both the Railroad Commission and the Public Utility Commission as to whether such pay incentives actually result in benefit to the ratepayer. The general consensus thus far has been that incentive for increased financial results should be borne solely by the shareholders as the beneficiaries of the improved performance. Therefore, in C2's opinion, the incentive compensation should not be paid for by the ratepayers.

Upon review of the underlying measures for awarding the incentive increases, C2 determined that only 20% of the award is based on performance measures for customer service and safety. Therefore, only this type of increase should be allowed. The impact of removing incentive payment for non-customer service and safety is a reduction for expense of $381,539.

2. The second major adjustment is to the level of employee benefits requested by the Company. As with payroll, the Company requested to include its 2008 budgeted benefits expense. Again, this is not a known and measurable level. In a response to a request for information, the Company provided the actual 2007 benefits expense. In C2's opinion, this is the logical starting place to match to C2's recommended adjusted December 2007 employee count and payroll expense.

To begin with, C2 adjusted the level of those benefits that tract number of employees rather than the level of payroll. This includes medical benefits, post employment benefits and post retirement benefits. Computing the actual 2007 level of expense per employee and adjusting to reflect the increase/decrease in employees through March 2008, C2 recommends a benefits expense for these benefits that is $350,428 less than what the Company requested for the benefits.

For pension and savings expense that fluctuate based on payroll expense, C2 adjusted the levels to reflect the adjusted payroll expense noted in Issue 1 above. The recommended adjustment for these benefits is to reduce the Company's request by $70,172.

The final adjustment to benefits is to eliminate the $9,510 in the test year for long term incentive benefits that were solely based on the financial performance for the benefit of shareholders, not ratepayers.

3. Based on information provided by the Company, C2 deducted the severance pay that was reported to be included in the test year expense. The adjustment reduces expense by $67,826.

4. The Company requested a budgeted amount of injuries and damages based on a 2008 liability study. This amount is not known and measurable, and, in fact, when reviewing the average expense for the last three years, the injuries and damages expense should be significantly less. C2 bases its recommendation on the average annual expense for the period January 2005 through December 2007. The result is to reduce the Company request by $196,270.

5. The Company requested a meter reading expense of $1,596,573 that not only is based on the budgeted 2008 expense, but also is 10.5% greater than the test year annual expense. Because the meter reading expense should somewhat follow the monthly changes in the level of customers, a 10.5% increase is not justified by the known and measurable changes of customers in the Texas Coast Division. By using a thirteen month average to reflect the monthly fluctuations, C2 recommends a meter reading expense of $1,549,940.

6. The Company's requested public awareness expense is totally based on the budgeted increase for the 2008 fiscal year. This is not known and measurable, and therefore, C2 recommends that no increase be allowed. This reduces the Company's proposed expense by $27,027.

7. As with the public awareness proposal, the auto liability insurance as requested is almost entirely based on estimates for claims in the 2008 year. Only the $4,545 for the auto liability premium appear to be reasonably measurable. Therefore, C2 recommends that only the premium amount be included, and that the Company's requested expense be reduced by $84,792.

8. Based on the Company's explanation, the call center costs have changed as the Company consolidated its call center into one location, with costs to be allocated based on minutes

of call. CNP's request is 38.56% greater than the actual test year costs. Even more telling is the fact that the increase in annual costs between calendar year 2006 and calendar year 2007 is 67.2%. Clearly on its service, such an increase is not reasonable without a corresponding growth in the number of customers.

C2 recommends that the costs more closely follow the change in customers. The increase in customers resulting from a comparison between the average for the 2006 year and the calendar year end 2007 is approximately 7.3%. Applying this increase to the average monthly call center costs for the 2006 period results in a recommended 2007 expense of $1,985,038. This is $795,614 less than the Company's requested expense of $2,780,652.

9. With respect to the allocation of various Entex and Houston Division services, CNP is requesting significant increases based on budgeted expenditures. C2 recommends that only known and measurable expense be allowed.

   As all of these corporate costs are allocated to FERC Account 9302, a review of the actual costs in this account is a reasonable approach to setting an on-going expense level. The test year end amount in this account is $4,046,224. The Company is requesting $4,659,528; a 15.2% increase. C2 recommends that the actual 2007 year end balance in this account be used. Additionally, C2 recommends that the amounts included in the test year for investor relations allocated costs not be allowed. The resulting computation is a C2 recommended FERC Account 9302 expense that is $310,210 less than the Company proposed amount. This is only a 7.5% increase over test year.

10. The final O&M expense adjustment is to the bad debt expense. Using the percentage proposed by the Company of .49% and the adjusted revenue requirements for the GCCC, C2 recommends that the bad debt expense be increased by $22,429. The reason that the bad debt is increased is that C2 is recommending billing units that are significantly greater in total that those put forth by the Company. Given that the estimated gas costs should be considered for purposes of computing bad debt, (even though not included in the base rate), the bad debt amount is increased over the request. By including total bad debt in the base rate, the GCA should not have any provision for bad debt.

11. C2 recommends that deprecation expense be adjusted to reflect the plant balances as recommended earlier in this report. Using the Company's proposed depreciation rates and applying them to C2's recommended plant balance results in a recommended depreciation expense that is $136,370 less than that proposed by the Company.

12. As with depreciation expense, the ad valorem taxes have to be adjusted to match the level of net plant in service recommended by C2. This computation results in a decrease to taxes other then income of $87,251.

13. Employee related taxes include FICA and unemployment taxes (FUE and SUE). Matching the level of payroll expense as recommended by C2 to the employee tax requirements results in a reduction to employee related taxes of $90,664.

Federal Income Taxes and State Margin Taxes have been computed by R.J. Covington Consulting, LLC based on the above recommendations for rate based and operating expenses. As shown on CTC Schedule 1, FIT is $1,601,331 less than the amount proposed by CNP. The recommended State Margin Tax is $91,995 less than CNP's proposed expense.

C. Analysis of Billing Determinants

In determining the appropriate billing units with which to develop rate design by customer class, typical analyses include weather normalization and customer growth or decline. The weather normalization takes into account whether the test year was above or below average temperatures in order to set the rates based on "normal" weather patterns. Customer change is reviewed to adjust test year levels for those areas that are showing continued growth or decline.

In the instant case, the weather during the test year was warmer than a 30 year norm for the area. However, the Company is proposing to use only the last 10 years of data which show that the test year was colder than normal. In C2's opinion, the 30 year norm is the appropriate methodology in that NOAA continues to compare weather data to 30 year norms in its reporting.

The Company has also proposed what in essence is a "load attrition adjustment" in its weather normalization computation. This is clearly speculative and not based on known and reasonably measurable changes. The Company's use of a regression analysis of actual heating degree days ("HDDs") to customer usage patterns cannot possibly take into account the changes in economic circumstances of individual customers, actual technological status of customer appliances, or even the changes in individual customer reactions to HDDs over time. Any weather normalization adjustment should only adjust the actual usages during the months considered to be weather impacted, and as stated above, the adjustment should be based on the comparison of actual test year HDDs to the 30 year normal HDDs.

The area served by the Texas Coast Division has continued to grow. Therefore, a customer growth adjustment is appropriate for the time that the rates will be in effect. The Company has included customer growth through the end of December 2008. This is clearly well outside the range of known and measurable. C2 has included a customer growth that essentially sets the customer levels at those of December 2007 based on comparisons of test year monthly counts to December 2007 levels.

The results of increasing billing units for weather normalization and increasing billing units for customer growth over test year actual usages results in C2's recommended billing units as follows:[4]

[4] Other customer classes are not impacted by weather changes and therefore do not have a weather normalization adjustment.

- Residential – 100,928,669
- Small Commercial – 20,988,301

This compares to the Company's proposed billing units for these two customer classes of:

- Residential – 96,743,884
- Small Commercial – 21,326,972

C2 notes that the Company's customer growth adjustment is greater than C2's as it projects growth through December 2008. This results in Small Commercial billing units that are higher than C2's recommendation. However, the Company's larger customer growth adjustment for the residential class is offset by its proposed "load attrition" adjustment.

C2 greatly appreciates having this opportunity to work with the Gulf Coast Coalition of Cities served by CNP. If you have any questions regarding the project activities, project analyses and/or the preliminary recommendations, please contact Ms. Connie Cannady at (972) 726-7216.

Very truly yours,

C2 Consulting Services, Inc.

CTC SCHEDULE 1

CENTERPOINT ENERGY ENTEX
TEXAS COAST DIVISION
GCCC RECOMMENDED REVENUE REQUIREMENTS
TEST YEAR ENDED SEPTEMBER 30, 2007

	COMPANY PROPOSED (1)	GCCC RECOMMENDED ADJUSTMENT	GCCC RECOMMENDED O&M EXPENSE	
Operating Expenses (1)	$37,512,374	($3,685,450)	$33,826,924	(2)
Federal Income Taxes (2)	4,064,328	(1,601,331)	2,462,997	(3)
Return on Investment (2)	11,648,045	(3,820,940)	7,827,105	(4)
Subtotal	53,224,747	(9,107,721)	44,117,026	
State Margin Tax	537,622	(91,995)	445,627	(5)
Total Revenue Requirements (excluding Gas Cost Revenue Related Taxes)	$53,762,369	($9,199,716)	$44,562,653	

Sources:
(1) Calculated from Company Rate Filing Package, Schedule 1 and Schedule 4a
(2) CTC Schedule 2
(3) CTC Schedule 5
(4) Calculated from CTC Schedule 2 and ROR of Dr. Randy Woolridge
(5) RJ Covington Consulting

CTC SCHEDULE 2

CENTERPOINT ENERGY ENTEX
TEXAS COAST DIVISION
TEST YEAR ENDED SEPTEMBER 30, 2007
ORIGINAL COST OF INVESTED CAPITAL

	COMPANY INVESTED CAPITAL (1)	GCCC PROPOSED ADJUSTMENTS	GCCC RECOMMENDED INVESTED CAPITAL	
Plant in Service:				
Intangible Plant	$5,627,161	($25,829)	$5,601,332	(2)
Distribution Plant	181,322,752	($11,298,695)	170,024,057	(2)
General Plant	6,420,437	($773,353)	5,647,084	(2)
Gross Plant in Service				
	193,370,350	(12,097,877)	181,272,473	
Reserve for Depreciation and Amortization	(82,829,493)	4,901,456	(77,928,037)	(3)
Net Plant in Service	110,540,857	(7,196,421)	103,344,436	
Other Rate Base Items:				
Working Capital				
Cash Working Capital	3,578,189	(3,578,189)	0	
Materials and Supplies	129,696	(25,768)	103,928	(4)
Prepayments	70,575	15,708	86,283	(5)
Storage Gas	21,584,014	(9,994,915)	11,589,099	(6)
Customer Deposits and Advances	(1,924,957)	0	(1,924,957)	
Accumulated Deferred Fed. Inc. Taxes	(10,118,341)	0	(10,118,341)	
Net Original Cost of Invested Capital	**$123,860,033**	**($20,779,585)**	**$103,080,448**	

Sources:
(1) Company Rate Filing Package, Schedule 2
(2) Calculated from Company Response to RFI TCUC 6-46, 6-47
(3) Calculated from Company Response to RFI TCUC 6-46, 6-47 and RFI TCUC 5-4
(4) Calculated from Company Response to RFI TCUC 6-20
(5) Calculated from Company Response to RFI TCUC 6-18
(6) Calculated from Company Response to RFI GCCC 6-2

CENTERPOINT ENERGY ENTEX
TEXAS COAST DIVISION
TEST YEAR ENDED SEPTEMBER 30, 2007
ADJUSTED OPERATING EXPENSES

	COMPANY PROPOSED (1)	GCCC RECOMMENDED ADJUSTMENT	GCCC RECOMMENDED O&M EXPENSE
Distribution Operations Expense	$7,185,480	($555,783) (2)	$6,629,697
Distribution Maintenance Expense	3,730,576	(652,563) (2)	3,078,013
Customer Accounts Expense	8,595,342	(1,120,208) (2)	7,475,134
Customer Information Expense	65,601	(7,450) (2)	58,151
Sales Expense	57,562	(7,450) (2)	50,112
Administrative and General Expense	8,990,948	(1,027,711) (2)	7,963,237
Total Operating Expense	28,625,509	(3,371,165)	25,254,344
Depreciation Expense	6,948,408	(136,370) (3)	6,812,038
Taxes Other Than Income	1,938,457	(177,915)	1,760,542 (4)
Total Expense Before FIT	$37,512,374	($3,685,450)	$33,826,924

Sources:
(1) Company Rate Filing Package, Schedule 4a
(2) Calculated from CTC Schedule 4
(3) Calculated from Company Rate Filing Package, Workpaper 4b/23, page 2 and Response to RFI TCUC 6-46,6-47
(4) Calculated from Company Rate Filing Package, Workpapers 4b/9, 4b/22 and CTC Schedule 2

CENTERPOINT ENERGY ENTEX
ADJUSTMENT TO PRO FORMA O&M EXPENSES
TEXAS COAST DIVISION
TEST YEAR ENDED SEPTEMBER 30, 2007

		(1)	(2)	(3)	(4)	(5)	(6)
No.	Particulars	Amount	Payroll Adjustment	Benefits	Severance Exp	Injuries & Damages	Meter Reading
	DISTRIBUTION OPERATION EXPENSES						
870	Operation supervision and engineering.	$ 423,134	$0				
871	Distribution load dispatching.	112,841	($53,202)				
874	Mains and services.	2,262,863	($10,386)				
875	Measuring and regulating station--General.	6,111	($107,954)				
876	Measuring and regulating station--Industrial	17,950	$0				
877	Measuring and regulating station--City gate check stations	-	$0				
878	Meter and house regulator.	2,770,479	($803)				
879	Customer installations	33,104	($338,623)				
880	Other	1,395,394	($14,290)				
881	Rents	163,604					
	Subtotal Distribution Operation Expenses	$ 7,185,480	(525,258)	0	0	0	0
	DISTRIBUTION MAINTENANCE EXPENSES						
885	Supervision and engineering.	$ 388,434	(58,713)				
886	Structures and improvements.	-					
887	Mains.	1,385,548	(149,247)				
889	Measuring & regulating station equipment--General.	124,447	(20,909)				
890	Measuring & regulating station equipment--Industrial.	107,608	(1,662)				
891	Measuring & regulating station equipment--City gates.	18,231	(12,546)				
892	Services.	1,208,173	(277,473)				
893	Meters and house regulators.	273,727	(87,072)				
894	Other equipment.	224,408					
	Subtotal Distribution Maintenance Expenses	$ 3,730,576	(607,622)	0	0	0	0
	CUSTOMER ACCOUNTS EXPENSES						
901	Supervision.	$ 155,185	(15,731)				
902	Meter reading expense.	1,459,951	(526)				(41,545)
903	Customer records and collection expense.	5,956,065	(206,409)		($67,826)		
904	Uncollectible accounts.	926,381					
905	Miscellaneous customer accounts expenses	97,760	(6,508)				
	Subtotal Customer Accounts Expense	$ 8,595,342	(229,174)	0	(67,826)	0	(41,545)
	CUSTOMER SERVICE AND INFORMATIONAL EXPENSES						
907	Supervision	$ -					
908	Customer assistance expenses	-					
909	Informational and instructional advertising expense	27,696	(2,243)				
910	Miscellaneous customer service and information expense	37,905	(5,207)				
	Subtotal Customer Service and Informational Expenses	$ 65,601	(7450)	0	0	0	0
	SALES EXPENSE						
911	Supervision	$ 1,070	(5,207)				
912	Demonstrating and selling expense	10,830	(748)				
913	Advertising expense	40,247					
916	Miscellaneous sales promotion expense.	5,414	(1,496)				
	Subtotal Sales Expense	$ 57,561	(7,450)	0	0	0	0
	ADMINISTRATIVE AND GENERAL EXPENSES						
920	Administrative and general salaries.	$ 383,345	(62,424)				
921	Office supplies and expenses.	249,599					
923	Outside services employed.	43,943					
924	Property insurance.	16,251					
925	Injuries and damages.	856,217				($196,270)	
926	Employee pensions and benefits.	2,168,337		($430,109)			
928	Regulatory commission expense.	-					
930.1	General advertising expenses.	80,854	(332)				
930.2	Miscellaneous general expenses	4,659,528					
931	Rents	233,528					
932	Maintenance of general plant.	299,346					
	Subtotal Administrative & General Expenses	$ 8,990,948	(62,756)	(430,109)	0	(196,270)	0
	Total Operating & Maintenance Expenses	$ 28,625,508	($1,439,709)	($430,109)	($67,826)	($196,270)	($41,545)

Sources:
(1) Company Rate Filing Package, Schedule 4a 1
(2) Calculated from Company Responses to RFIs GCCC-1-5 and 1-9, TCUC 6-11 and 6-13, and Company Rate Filing Package, Workpapers4b/9
(3) Calculated form Company Responses to RFIs GCCC 7-1 and 6-8, and RFIs TCUC 6-8 and 6-10
(4) Calculated from Company Responses to RFIs GCCC 5-5 and 5-9
(5) Calculated from Company Response to RFI GCCC 1-30
(6) Calculated from Company Response to RFI GCCC 5-7
(7) Company Rate Filing Package, Workpaper 4b/17
(8) Company Rate Filing Package, Workpaper 4b/10
(9) Calculated from Company Response to RFIs GCCC 5-14 and 2-1
(10) Calculated from Company Response to RFIs TCUC 1-21and 10-10 and Company Rate Filing Package
(11) Calculated from Company Rate Filing Package, Workpaper 4b/14, CTC Schedule 1, and C2 Recommending Billing Units times Company gas cost per CCF

CENTERPOINT ENERGY ENTEX
ADJUSTMENT TO PRO FORMA O&M EXPENSES
TEXAS COAST DIVISION
TEST YEAR ENDED SEPTEMBER 30, 2007

No	Particulars	(7) Public Awareness	(8) Auto Liability	(9) Call Center Adj	(10) Corporate IT and Shared	(11) Bad Debt Expense	Total Adjustment To O&M Expense
DISTRIBUTION OPERATION EXPENSES							
870	Operation supervision and engineering.						$0
871	Distribution load dispatching		(2,544)				($55,745)
874	Mains and services.		(13,567)				($23,952)
875	Measuring and regulating station--General						($107,954)
876	Measuring and regulating station--Industrial						$0
877	Measuring and regulating station--City gate check stations.						$0
878	Meter and house regulator		(14,414)				($15,218)
879	Customer installations						($338,623)
880	Other						($14,290)
881	Rents						$0
	Subtotal Distribution Operation Expenses	0	(30,525)	0	0	0	(555,783)
DISTRIBUTION MAINTENANCE EXPENSES							
885	Supervision and engineering						($58,713)
886	Structures and improvements						$0
887	Mains.		(17,807)				($167,054)
889	Measuring & regulating station equipment--General.						($20,909)
890	Measuring & regulating station equipment--Industrial.		(1,696)				($3,358)
891	Measuring & regulating station equipment--City gates.		(848)				($13,393)
892	Services		(7,631)				($285,104)
893	Meters and house regulators		(1,696)				($88,768)
894	Other equipment		(15,263)				($15,263)
	Subtotal Distribution Maintenance Expenses	0	(44,941)	0	0	0	(652,563)
CUSTOMER ACCOUNTS EXPENSES							
901	Supervision.						($15,731)
902	Meter reading expense		(5,087)				($47,159)
903	Customer records and collection expense.		(2,544)	(795,614)			($1,072,392)
904	Uncollectible accounts.					22,429	$22,429
905	Miscellaneous customer accounts expenses		(848)				($7,356)
	Subtotal Customer Accounts Expense	0	(8,479)	(795,614)	0	22,429	(1,120,208)
CUSTOMER SERVICE AND INFORMATIONAL EXPENSES							
907	Supervision						$0
908	Customer assistance expenses						$0
909	Informational and instructional advertising expense						($2,243)
910	Miscellaneous customer service and information expense						($5,207)
	Subtotal Customer Service and Informational Expenses	0	0	0	0	0	(7450)
SALES EXPENSE							
911	Supervision						($5,207)
912	Demonstrating and selling expense						($748)
913	Advertising expense						$0
916	Miscellaneous sales promotion expense.						($1,496)
	Subtotal Sales Expense	0	0	0	0	0	(7,450)
ADMINISTRATIVE AND GENERAL EXPENSES							
920	Administrative and general salaries.						($62,424)
921	Office supplies and expenses						$0
923	Outside services employed.						$0
924	Property insurance						$0
925	Injuries and damages.						($196,270)
926	Employee pensions and benefits.						($430,109)
928	Regulatory commission expense.						$0
930.1	General advertising expenses.	(27,027)					($27,359)
930.2	Miscellaneous general expenses.		(848)		(310,701)		($311,549)
931	Rents						$0
932	Maintenance of general plant						$0
	Subtotal Administrative & General Expenses	(27,027)	(848)	0	(310,701)	0	(1,027,711)
	Total Operating & Maintenance Expenses	($27,027)	($84,792)	($795,614)	($310,701)	$22,429	($3,371,165)

Sources:

CENTERPOINT ENERGY ENTEX
ADJUSTMENT TO PRO FORMA FEDERAL INCOME TAX
TEXAS COAST DIVISION
TEST YEAR ENDED SEPTEMBER 30, 2007

GCCC Recommended Rate Base (1)		$103,080,448
Percentage Equity (2)		4.6341%
Taxable Component of Return		4,776,851
Federal Income Tax Rate (2)	35.00%	
State Gross Receipts and Franchise Fee Tax Rate (3)	2.80%	
Adjusted FIT Rate (1-2.80%)*35%	34.02%	
Adjusted Tax Rate (34.02%/6598%) (4)		51.5611%
GCCC Recommended Federal Income Tax		$2,462,997

Sources:
(1) Calculated from CTC-Schedule 2 and Woolridge Report
(2) Company Rate Filing Package, Schedule 1a
(3) Calculated from Company Rate Filing Package, Schedule 4a and Workpaper 4b/28
(4) Formula Provided by RJ Covington Consulting

Analysis of Plant in Service

	Direct 9/30/2007	Allocated	Total			Direct 12/31/2007	Allocated	Total		
INTANGIBLE PLANT:	419		419		0	418		418		0
ORGAN. COSTS			0		0			0		0
PERPETUAL F & C		366,845	366,845		0		366,845	366,845		0
P/L INTERCONN/OTHER		2,341,797	2,341,797	10.00%	234,180		2,341,797	2,341,797	10.00%	234,180
MISC. INTANGIBLE PLANT		72,837	72,837	20.00%	14,567		72,837	72,837	20.00%	14,567
EFM EQUIPMENT		373,281	373,281		0		373,281	373,281		0
SOFTWARE - SAP		2,203,191	2,203,191	10.00%	220,319		2,446,153	2,446,153	10.00%	244,615
TOTAL INTANGIBLE PLANT	419	5,357,951	5,358,370		469,066	418	5,600,913	5,601,332		493,362
#REF!										
DISTRIBUTION PLANT:										
LAND - GENERAL	23,720		23,720		0	23,720		23,720		0
LAND RIGHTS - ROW - GENERAL DIST	102,839		102,839	2.13%	2,190	102,839		102,839	2.13%	2,190
STRUCT - CG ML IND M/R	100,944		100,944	2.29%	2,312	100,944		100,944	2.29%	2,312
MAINS	20,872,819		20,872,819	2.48%	517,646	21,248,569		21,248,569	2.48%	526,965
MAINS	52,723,844		52,723,844	2.82%	1,486,812	54,467,726		54,467,726	2.82%	1,535,990
M/R STAT EQUIP - GENERAL	771,278		771,278	4.31%	33,242	743,810		743,810	4.31%	32,058
M/R STAT EQ - CTY GT	3,333,805		3,333,805	3.08%	102,681	3,485,825		3,485,825	3.08%	107,363
SERVICES	4,982,372		4,982,372	3.97%	197,800	4,907,457		4,907,457	3.97%	194,826
SERVICES	50,607,802		50,607,802	5.33%	2,697,396	51,843,475		51,843,475	5.33%	2,763,257
METERS	2,640		2,640	2.01%	53	2,640		2,640	2.01%	53
METERS		12,565,262	12,565,262	2.01%	252,562		12,511,013	12,511,013	2.01%	251,471
METER INSTALLS	12,585,472		12,585,472	2.73%	343,583	12,892,885		12,892,885	2.73%	351,976
METER INSTALLS	1,766,521		1,766,521	4.16%	73,487	1,784,973		1,784,973	4.16%	74,255
REGULATOR DOMESTIC		4,532,737	4,532,737	3.62%	164,085		4,580,069	4,580,069	3.62%	165,798
REGULATOR INDUSTRIAL		532,343	532,343	1.96%	10,434		532,343	532,343	1.96%	10,434
MTR INSTALL - IND/LARGE	267,442		267,442	2.78%	7,435	320,899		320,899	2.78%	8,921
OTHER EQUIPMENT	473,438	1,430	474,868	3.17%	15,053	473,438	1,430	474,868	3.17%	15,053
ASSET RETIREMENT OBLIGATION							2,884,679	0	10.00%	0
TOTAL DISTRIBUTION PLANT	148,614,936	17,631,772	166,246,708		5,906,772	152,399,202	20,509,534	170,024,057		6,042,923
#REF!										
GENERAL PLANT:										
LAND										
STRUCT/IMPR - GEN	16,165		16,165	3.01%	487	16,165		16,165	3.01%	487
LEASEHOLD IMPROVEMENTS	86,434	23,743	110,177		0	86,434	23,743	110,177		0
LEASEHOLD IMPROVEMENTS			0		0			0		0
FURNITURE & EQUIPMENT - MISC	182,939	341,119	524,058		0	182,939	341,119	524,058		0
OFFICE EQUIPMENT - GENERAL			0		0			0		0
COMPUTER EQUIPMENT - MISCELLANEOUS			0	9.23%	0		66123.35	66,123	9.23%	6,103
STORES EQUIPMENT			0		0			0		0
TOOLS/WORK EQUIPMENT - ENT	419,157		419,157		0	419,157		419,157		0
	101,574		101,574	8.33%	8,461	101,574		101,574	8.33%	8,461
SHOP EQUIPMENT (ENTEX)	15,747		15,747		0	15,747		15,747		0
	907		907	8.33%	76	907		907	8.33%	76
GARAGE EQUIPMENT (ENTEX)			0		0			0		0
LAB EQUIPMENT			0		0			0		0
COMMUNICATION EQUIPMENT	790,994	2,652	793,646		0	790,994	2,652	793,646		0
MISCELLANEOUS EQUIPMENT	34,690	13,279	47,969		0	41,516	13,279	54,795		0
	6,230		6,230	6.67%	416	6,230		6,230	6.67%	416
MISCELLANEOUS TANGIBLE PROPERTY			0		0			0		0
GENERAL - FL			0		0			0		0
TOTAL GENERAL PLANT	1,654,837	380,793	2,035,630		9,439	1,661,663	446,917	2,108,579		15,542
#REF!										
TRANSPORTATION AND NEW EQUIP										
AUTOS	31,789	5,723	37,512	8.52%	3,196	31,789	5,723	37,512	8.52%	3,196
TRUCKS	2,735,261	6,824	2,742,085	8.52%	233,626	2,705,069	6,824	2,711,894	8.52%	231,053
POWER OPERATING EQUIPMENT	801,271		801,271	3.29%	26,362	789,099		789,099	3.29%	25,961
TOTAL TRANSPORTATION AND NEW EQUIP	3,568,321	12,547	3,580,868		263,183	3,525,958	12,547	3,538,505		260,211
#REF!										
TOTAL PLANT	153,838,513	23,383,063	177,221,576		6,385,277	157,587,241	26,569,910	181,272,473	3.61%	6,551,828
					6,648,461					6,812,038 ⇨
								5,647,084		

(163,577 Increase in per books 9/07 depreciation expense
(81,789 1/2 charged to accumulated reserve
(77,846,249 Per Books 12/07 accumulated depreciation
(77,928,037 GCCC Adjusted accumulated depreciation

6,948,408 Company proposed depreciation expense
(136,370) GCCC recommended adjustment to depreciation expense