

**MODEL STAFF REPORT  
ON CENTERPOINT ENERGY ENTEX ORDINANCE**

**Purpose of the Ordinance:**

In March of this year, CenterPoint Energy Entex (“CNP”) filed its Statement of Intent to increase natural gas rates. CNP filed schedules with the cities, which have been reviewed by the cities’ consultants. In addition, the cities’ consultants requested additional information from CNP. As a result of their analysis of the filing and the additional information, the cities’ consultants have issued reports finding that CNP’s current rates are excessive and should be reduced.

**Overview of Consultants’ Report:**

1. Rate of Return. CNP’s filing proposes a rate of return that is excessive when compared to similarly situated utilities and prior precedent. Consequently, the rate of return should be adjusted to 7.59%.
2. Rate Base. CNP has included in its request numerous projected expenditures that are not known and measurable. As a result, CNP’s rate base request should be reduced by \$20.8 million.
3. Operating Expenses. CNP has improperly adjusted its operation and maintenance expenses based upon budgeted amounts that are not known or measurable. CNP’s proposal should be reduced by \$3.7 million.

As a result of these adjustments, CNP’s adjusted test year revenues should be reduced by \$2,257,916. This compares to the Company requested overall increase of \$7,357,609.

**Explanation of “Be It Ordained” Paragraphs:**

1. A public hearing on the proposed rate ordinance was held on \_\_\_\_\_, 2008. At that time, CenterPoint and interested members of the public were given the opportunity to address the Council on the proposed rate ordinance.
2. CenterPoints’ filing and its responses to requests for additional information, as analyzed by the cities’ consultants, failed to show that its existing rates were just or reasonable, thus triggering the need for the City to take action to ensure that the regulated utility’s rates are just and reasonable.
3. The rates in Attachment “A” are those rates recommended by the Cities’ consultants that will meet the requirements of the Gas Utility Regulatory Act (“GURA”). That is, the rates will produce revenues for CNP that will permit CNP a reasonable opportunity to earn a reasonable return on its invested capital, but will not yield more than a fair return.

4. The rates ordered by the City will be effective immediately.

5. It is expected that CNP will appeal the rate ordinance to the Railroad Commission. The City will intervene in that appeal in conjunction with the Gulf Coast Coalition of Cities. A full hearing on the merits of CNP's appeal will be held at the Commission. It is expected that the hearing will take place later this year.

6. GURA requires the utility to reimburse the City for its reasonable costs associated with the City's activities related to the show cause proceeding.