

**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 \_\_\_\_\_. 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.

3. With respect to the COSA rate schedule, CenterPoint and GCCC agree that in the event the parties are unable to reach agreement on the appropriate COSA Adjustment calculated under the COSA and the GCCC Cities deny the proposed COSA Adjustment, CenterPoint shall have the option of appealing that denial to the Railroad Commission of Texas ("Commission"). CenterPoint and GCCC further agree that in the event of an appeal, the GCCC Cities will have standing to intervene in an appeal at the Commission and is authorized to receive reimbursement of its reasonable and necessary rate case expenses associated with participation in the appeal as if the rate-setting provisions of Sections 103.022 and 103.023 of the Texas Utility Code applied. The Signatories further agree that the rate-setting provisions of Chapters 103 and 104 of the Texas Utility Code shall apply to a determination of the appropriate COSA adjustment.
4. CenterPoint agrees that it will make no filings on behalf of its Texas Coast Division under the provisions of Tex. Util. Code Ann. § 104.301 while the Schedule No. COSA-2 is in effect. In the event that a regulatory authority fails to act or enters an adverse decision regarding the proposed annual adjustment under Schedule COSA-2, the Railroad Commission of Texas shall, pursuant to the provisions of the Texas Utilities Code, have exclusive appellate jurisdiction to review the action or inaction of the regulatory authority exercising exclusive original jurisdiction over the COSA request. In addition, the Signatories agree that this Settlement Agreement shall not be construed as a waiver of the GCCC Cities' right to initiate a show cause proceeding or the Company's right to file a Statement of Intent under the provisions of the Texas Utilities Code.
5. It is the intention of the Signatories that the GCCC Cities receive the benefit of any Settlement Agreement that CenterPoint enters into with other entities arising out of GUD No. 9791 (consolidated cases) or any associated appeals from GUD No.9791. CenterPoint therefore agrees that if the rates, revenues, terms and conditions, or benefits accruing to the settling entity would be more beneficial to the GCCC Cities than the terms of this Settlement Agreement, as determined by the GCCC Cities, such more favorable rates, revenues, terms and conditions or benefits shall additionally accrue to the GCCC Cities. If the Final Order in GUD No. 9791 or orders resulting from any associated appeals are determined by GCCC Cities to result in overall rates, revenues, terms and conditions, and benefits that are more beneficial than the terms of this Settlement Agreement, the GCCC Cities may choose rates, revenues, terms and conditions, and benefits consistent with the Final Order or orders of any associated appeals in place of the Settlement Agreement.
6. CenterPoint agrees to reimburse the GCCC Cities for their previously incurred reasonable rate case expenses associated with CenterPoint's 2008 Statement of Intent filed in its Texas Coast Division within thirty (30) days of the date of the last GCCC City has taken action on this Settlement Agreement, and any additional reasonable rate case expenses incurred through the date of the last GCCC City ordinance approving the Settlement Agreement. The Signatories agree that CenterPoint is entitled to recover its reasonable rate case expenses associated with CenterPoint's 2008 Statement of Intent filing with the GCCC Cities, as well as those expenses of the GCCC Cities associated with

CenterPoint's 2008 Statement of Intent, as an expense to be included in the first COSA filed in 2009, and that such amount shall not be included in the calculation of the 5% band limiting the amount of any COSA Adjustment. GCCC Cities shall not be 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 3<sup>rd</sup> day of July, 2008.

CENTERPOINT ENERGY RESOURCES, INC.

By:

\_\_\_\_\_  
Richard A. Zapalac  
Regional Vice President Gas Operations

**GULF COAST COALITION OF CITIES**

**By:** \_\_\_\_\_  
**Thomas Brocato**  
**Attorney for Gulf Coast Coalition of Cities**