

MEMORANDUM

TO: Gulf Coast Coalition of Cities (CenterPoint Gas Texas Coast Division)

FROM: Thomas Brocato *T.B.*

DATE: May 6, 2009

RE: CenterPoint Energy Gas – Texas Coast Division Cost of Service Adjustment

On May 1, 2009, CenterPoint Energy Gas ("CenterPoint" or "Company") filed a Cost of Service Adjustment ("COSA") application with each of the Gulf Coast Coalition of Cities ("GCCC") members that were signatories to the settlement agreement to the Company's rate case last year.

In the filing, the Company asserts that it is entitled to a \$4.25 million increase or a \$1.39 per month increase for each customer. However, the settlement agreement limits the amount that can be requested to 5% over existing rates. Therefore, the Company is requesting a \$0.65 increase. They are also seeking to recover rate case expenses that were deferred from last year's case.

You may recall that on March 6, 2008, CenterPoint filed a request to increase its rate by \$7.36 million annually. After lengthy discussions, we were able to reach a settlement resolving all issues. Under the agreement, the Company's request was reduced 54% to a \$3.38 million rate increase. Significantly, we were also able to avoid paying litigation costs of other cities that continue to litigate the case before the Railroad Commission.

The settlement also eliminated piecemeal ratemaking in favor of a comprehensive COSA mechanism. Under the law, gas utilities are able to file gas reliability infrastructure program ("GRIP") rate cases. The settlement agreement authorized a three year experiment with an expedited rate review process that replaces GRIP ratemaking. There will be no GRIP filings while the COSA is operative. Cities have opposed all GRIP filings made by other utilities as piecemeal ratemaking because gas utilities were able to receive a rate increase simply by showing a change in their invested capital instead of a more comprehensive review of all the components that affect rates, like revenues and expenses. However, Cities have been unsuccessful in defeating GRIP at the Legislature and in the courts.

The COSA process, starting with this filing, should be a more comprehensive process that will allow cities with original jurisdiction the opportunity to review information regarding changes to CenterPoint's revenues and expenses as well as its invested capital. In addition, CenterPoint and GCCC agreed to certain constraints on the magnitude of changes to expenses and invested capital under the COSA. The agreement also freezes CenterPoint's rate of return on

equity and its capital structure for purposes of the COSA filings to avoid manipulation of their overall rate of return.

Expenses incurred by GCCC to review COSA filings will be reimbursed by CenterPoint.

The rate increase requested by CenterPoint will become effective on August 1, 2009. Cities have 90 days to review the proposed rate adjustment. **Accordingly, we request that each city schedule the draft resolution attached to this memorandum for consideration at their next council meeting.** During the 90 day period, we will review the application in order to ensure that the Company has not included any unreasonable costs. If, after the 90 day review period, Cities have not reached an agreement with the Company, the Cities may take action to deny the application.

We are aware that, as it has done previously, CenterPoint delivered a letter to each of the GCCC members pressuring them to settle this matter. Please be aware, that we are always open to the prospect of settlement and are mindful of the benefits of resolving cases without the need for costly litigation. Moreover, the Company's letter assumes that the cost of participation in the case will exceed the benefits that can be gained. This is incorrect. Participation by Cities in a review of rates charged by utilities results in significant benefits to customers that far outweigh the costs of litigation. The amount saved by Cities' efforts is several times the amount spent to investigate the request, even when the litigation costs of the Company (which far exceed Cities' litigation costs) are included.

If you have any concerns or question please do not hesitate to contact me at (512) 322-5857. We appreciate your continued support.