

RESOLUTION NO. 2010- 209 R

A resolution of the City of Victoria suspending the January 7, 2011, effective date of CenterPoint Energy Entex and CenterPoint Energy Texas Gas South Texas Division requested rate change to permit the City time to study the request and to establish reasonable rates; approving cooperation with other cities in the CenterPoint South Texas Service area to hire legal and consulting services and to negotiate with the Company and direct any necessary litigation and appeals; authorizing intervention in GUD No. 10,038 at the Railroad Commission; authorizing legal representation; requiring reimbursement of Cities' rate case expenses; finding that the meeting at which this resolution is passed, is open to the public as required by law; requiring notice of this resolution to the company and legal counsel; and declaring an effective date.

WHEREAS, on or about December 2, 2010, CenterPoint Energy Entex and CenterPoint Energy Texas Gas (CenterPoint), pursuant to Gas Utility Regulatory Act § 104.102 filed with the City of Victoria a Statement of Intent to change gas rates in all municipalities exercising original jurisdiction within its Southern Division service area effective January 7, 2011; and

WHEREAS, it is reasonable for the City of Victoria to cooperate with other similarly situated cities in conducting a review of the Company's application and to hire and direct legal counsel and consultants and to prepare a common response and to negotiate with the Company and direct any necessary litigation; and

WHEREAS, the Gas Utility Regulatory Act § 104.107 grants local regulatory authorities the right to suspend the effective date of proposed rate changes for ninety (90) days; and

WHEREAS, CenterPoint has filed an application with the Railroad Commission, GUD No. 10,038, that could become the docket into which appeals of City action on the CenterPoint filing are consolidated;

WHEREAS, the Gas Utility Regulatory Act § 103.022 provides that costs incurred by Cities in ratemaking activities are to be reimbursed by the regulated utility.

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF VICTORIA, TEXAS:

1.

That the January 7, 2011, effective date of the rate request submitted by CenterPoint on or about December 2, 2010, be suspended for the maximum period allowed by law to permit adequate time to review the proposed changes and to establish reasonable rates.

2.

That the City is authorized to cooperate with other cities in the CenterPoint service area to hire and direct legal counsel and consultants, negotiate with the Company, make recommendations to the City regarding reasonable rates and to direct any necessary administrative proceedings or court litigation associated with an appeal of a rate ordinance and the rate case filed with the City or Railroad Commission.

3.

That subject to a final determination of legal counsel by a Cities' Steering Committee, Geoffrey Gay of the law firm of Lloyd Gosselink is authorized to represent the City in all matters associated with the CenterPoint application to increase rates and appeals thereof.

4.

That intervention in Railroad Commission GUD No. 10,038 be authorized.

5.

That the City's reasonable rate case expenses shall be reimbursed by CenterPoint.

6.

That it is hereby officially found and determined that the meeting at which this resolution is passed is open to the public as required by law and the public notice of the time, place, and purpose of said meeting was given as required.

7.

A copy of this resolution shall be sent to Scott Doyle, Regional Vice President Gas Operations, CenterPoint Energy, 1111 Louisiana Street, Houston, Texas 77002, and to Geoffrey Gay, at Lloyd Gosselink, 816 Congress Avenue, Suite 1900, Austin, Texas 78701.

8.

This resolution shall become effective immediately upon adoption.

PASSED, this the 14th day of December, 2010.

AYES: 7

NAYS: 0

ABSTENTIONS: 0

APPROVED AND ADOPTED, this the 14th day of December, 2010.



ATTEST:

Scarlet Swoboda
SCARLET SWOBODA, City Secretary

Distribution: Legal Department
Finance Department

Will Armstrong

WILL ARMSTRONG, Mayor of the
City of Victoria, Texas

APPROVED AS TO LEGAL FORM:

Thomas A. Gwosdz

THOMAS A. GWOSDZ, City Attorney

Copies Sent: December 15, 2010

**CenterPoint Energy Gas – South Texas Division
 Statement of Intent to Change Rates
 December 3, 2010**

Filing Summary:

- Last CenterPoint rate case filed for the South Texas Division was in July 2005, approximately five years ago.
- Within the South Texas Division, CenterPoint provides service to 136,074 customers (126,232 residential customers).
- Filing is based on a Test Year ending June 30, 2010. Proposed rate base of \$66.19 million.
- CenterPoint is requesting a rate increase of \$6.5 million. This is an overall 20.7% increase in revenues (excluding gas cost).
- Eagle Lake, Hallettsville, Kenedy, Nordheim, Pleasanton, San Diego, Seguin, Sinton and Weimar have already ceded their original jurisdiction to the Railroad Commission of Texas (“Commission”) pursuant to the Gas Utility Regulatory Act (“GURA”) § 103.003(a).
- Allocation of proposed revenue increase by class:

<u>South Texas Division Classes</u>	<u>Number of Customers</u>	<u>Revenue Change, Exclusive of Revenue-Related Taxes</u>
Residential	126,232	\$6.0 million
General Service – Small	9,550	\$0.6 million
General Service – Large Volume	<u>292</u>	<u>\$(0.1) million</u>
TOTAL	136,074	\$6.5 million

1. Average monthly bill changes:
 Residential customers - **25% increase** excluding gas cost and 14% increase with gas cost
 Small Commercial - **15% increase** excluding gas cost and 4% increase with gas cost
 Large Volume - **15.7% decrease** excluding gas cost and 2.3% decrease with gas cost
2. Average residential customer’s monthly bill will increase by approximately **\$4.00**.
3. **62% increase** in proposed Residential customer charge: from \$11.75 to \$19.00.

4. Significant tariff changes:

- i. CenterPoint proposes to increase the carrying cost on the over/under recovery of gas costs to 6%.
 - ii. Increase the carrying cost on gas storage inventories to latest pre-tax rate of return ("ROR").
 - iii. Collect revenue related taxes incurred by jurisdiction from customers located in that jurisdiction.
 - iv. Establish a Franchise Fee Adjustment rate schedule to recover municipal franchise fees directly from customers within the municipality imposing the franchise fee.
- Significant pro forma adjustments to operating expenses.
 - Overall Rate of Return of 9.299% with a Return on Equity of 11.00%. Debt / equity ratio of 44% / 56%.
 - New depreciation study established new rates for most plant accounts.
 - Proposed weather adjustment to account for abnormal weather.
 - New lead-lag study for calculating cash working capital requirement.

Significant Issues:

- The allocation of the proposed revenue increase is heavily weighted to the Residential class. In fact, large volume customers receive rate decreases. We would review the Company's cost allocation model and develop an alternative allocation methodology that is more appropriate.
- The proposed increase in the Residential customer charge is significant and may pose a hardship on lower income customers. We would review the Company's proposed rate design and develop an alternative design that is more appropriate.
- The proposed changes to the tariffs will result in higher costs to customers and certainly result in significant policy issues that should be evaluated. For example, increasing the interest rate on gas cost balances and adding a return on gas storage inventories in the purchased gas adjustment ("PGA") will increase gas costs. Recovering revenue-related taxes and franchise fees from specific customers is a change from previous policy.

- Pro forma expense adjustments should be reviewed for reasonableness and must remove costs not reasonable and necessary, including budgeted costs not based on test year expenses.
- New depreciation study established new rates for most plant accounts. While the Company asserts that there will be little net change in depreciation expense, this should be confirmed as depreciation is a significant component of the total revenue requirement.