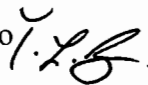


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## MEMORANDUM

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

FROM: Thomas Brocato   
Geoffrey Gay  
Georgia Crump

DATE: March 11, 2008

RE: CenterPoint Energy Gas – Texas Coast Division Statement of Intent to Increase Rates – **ACTION REQUIRED TO SUSPEND THE EFFECTIVE DATE BY APRIL 10, 2008**

On March 6, 2008, CenterPoint Energy Gas filed a Statement of Intent to Increase Rates with all cities that retain original jurisdiction in their Texas Coast Division. The Statement of Intent indicates that the Company is seeking a \$7.36 million rate increase. If approved, the increase would raise rates for the average residential customers by nearly \$42 per year.

The rate increase requested by CenterPoint will become effective on April 10, 2008, unless the city takes action to suspend the effective date. The statute permits cities to extend the effective date by up to 90 days in order to study the filing. **The city must take action to suspend the effective date by April 10, 2008.** Suspending the effective date allows cities more time to review the application and decide on the final action, including settlement or denial of CenterPoint's requested rate increase. Attached to this memo is a model suspension resolution and staff report. In addition, the resolution provides authority for intervention in the pending environs case at the Railroad Commission (RRC) where it is anticipated that the city case will be consolidated upon appeal.

Cities exercising original jurisdiction have a long and successful history of settling rate issues and avoiding formal rate cases. On the electric side, GCCC has settled CenterPoint's most recent rate case and has settled several other cases involving the utility.

Over the past 30 years more than 75% of gas ratemaking matters have been resolved at the local level without triggering the jurisdiction of the RRC. Historically, environs cases have been processed only after rates at the city level have been settled, with utilities petitioning the RRC to apply city approved rates in the associated areas outside city limits.

CenterPoint has diverged from historic practice and has employed various means to silence cities' regulatory efforts, because coalitions of cities are the only effective advocates for gas consumers. There is no public counsel at the RRC, and the staff of the RRC usually devotes little if any resources to a gas rate case and depends upon cities to review and challenge utility

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positions. In the most recent litigated Atmos Gas case, the Commission Staff filed no testimony in a request by Atmos for an annual increase in excess of \$50 million.

In a 2003 rate proceeding, CenterPoint filed first with the City of Houston and after settling that matter, filed the settlement agreement with surrounding cities and essentially directed cities to take it or leave it. CenterPoint agreed in the future to only file simultaneously with all cities within a given division. In the next case, involving its South Texas Division that extends from Victoria to Laredo, CenterPoint's new tactic for neutralizing cities was to file an environs case at the RRC with no reference to city rates. Then after receiving an uncontested Commission order, CenterPoint attempted to force all of its cities to accept that order. Ultimately, a handful of cities that resisted the marketing of a most favored nations promise and a threat of surcharged rate case expenses to any city that opposed its plan, achieved a settlement that was better for ratepayers than the order approved by the Commission. However, the result in that case would have been much more beneficial if all of the cities had united with the handful of cities that resisted Centerpoint.

In the most recent Atmos Mid-Tex case, a coalition of cities resisted the Company's "divide and conquer" tactics and threats. More than 60 cities sent representatives to a meeting with Atmos officials who were told that tactics like those now pursued by CenterPoint were not appreciated. A settlement has been achieved in that matter with cities approving new rates that are but a small fraction of the requested increase. Furthermore, Atmos agreed to accept a 9.6% return on equity rather than the requested 11% (same as that requested by CenterPoint) and authorized each city to increase franchise fees so long as the city was willing to have the incremental fees surcharged within city limits.

It is our understanding that CenterPoint representatives have met with many of the mayors and city officials encouraging them not to participate in the rate case, offering increased franchise fees in return for relinquishing original jurisdiction and threatening to surcharge rate case expenses only to those cities that participate. These are, of course, all tactics by the Company intended to eliminate opposition to their request that we hope will be recognized as such.

If you have any questions, please feel free to contact Thomas (512-322-5857, [tbrocato@lglawfirm.com](mailto:tbrocato@lglawfirm.com)) or Geoffrey (512-322-5875, [ggay@lglawfirm.com](mailto:ggay@lglawfirm.com)).