

AGENDA INFORMATION SHEET
AGENDA ITEM NO. _____

**DENIAL OF APPLICATION FOR AUTHORITY TO CHANGE RATES
SUBMITTED BY CENTERPOINT ENERGY RESOURCES
CORPORATION, D/B/A, CENTERPOINT ENERGY ENTEX AND
CENTERPOINT ENERGY TEXAS GAS**

BACKGROUND

On or about October 30, 2023, CenterPoint Energy Resources Corporation, D/B/A, CenterPoint Energy Entex and CenterPoint Energy Texas Gas (“CenterPoint” or “Company”) filed a Statement of Intent to increase rates by a total of approximately \$37.4 million. CenterPoint filed its application with the Railroad Commission of Texas (RRC) on the same date it filed its application with the City.

Further, though the overall increase is \$37.4 million, CenterPoint proposes to increase rates for its residential class of customers by \$58.4 million, and to decrease rates for its small and large commercial customers by a combined amount of about \$21 million.

Additionally, a key element of CenterPoint’s application is that it proposes to consolidate its four rate divisions into a single rate division. Currently, CenterPoint has four divisions: the Beaumont/East Texas Division; the South Texas Division; the Texas Coast Division; and the Houston Division. CenterPoint asserts that the effect of combining the four divisions into a single division is to produce a decrease in rates in its Beaumont/East Texas Division and in its South Texas Division, while increasing rates in its Texas Coast Division and in the Houston Division.

Thus, though it may seem counter intuitive to deny a rate decrease, as recommended below, historically, the Railroad Commission of Texas (RRC) almost always approves a lower change in overall revenue than as proposed by the utility. So, if a city approves CenterPoint’s as-filed decrease in rates and if CenterPoint doesn't appeal the decrease in rates approved at the city level, i.e., the decrease in rates CenterPoint proposed, e.g., in its Beaumont/East Texas and South Texas divisions, the cities in those divisions may miss out on a potentially lower rate than as proposed by CenterPoint.

Although not tested in quite some time, court decisions suggest that the rates approved at the city level remain in effect until changed on appeal by the RRC. If CenterPoint does not file an appeal of the rates the cities approved in CenterPoint's Beaumont/East Texas and South Texas divisions, the rates approved at the city level would be the "final rates" for those cities approving the decrease in rates as proposed by CenterPoint.

And, so assuming as history suggests, the RRC approves a level of overall revenue lower than as proposed by CenterPoint, though CenterPoint proposed a decrease for ratepayers in its Beaumont/East Texas and South Texas divisions, the decrease likely should've been even

lower. This presumes that the RRC will approve CenterPoint's proposal to consolidate its four divisions into a single rate division. Note that the RRC has recently approved other utilities' similar requests that proposed consolidation of those other utilities' separate rate divisions into a single division.

Another factor that argues against approval of CenterPoint's proposed decrease in its Beaumont/East Texas and South Texas divisions, is that even though CenterPoint's *overall* proposed increase is about \$37.4 million, the Residential class under CenterPoint's proposal, would see an increase in excess of \$58.4 million. This means that CenterPoint's proposed allocation of costs to the customer classes needs a close review.

OVERVIEW OF MAJOR ELEMENTS OF CENTERPOINT'S APPLICATION

As noted above, CenterPoint proposes to increase rates by a total of approximately \$37.4 million. However, CenterPoint also proposes to increase rates for residential customers by about \$58.4 million and to decrease rates for small and large commercial customers by about \$21 million.

Additionally, CenterPoint proposes to consolidate its four rate divisions into a single rate division. If approved, CenterPoint will have a single set of rates for all its customers in Texas.

These two factors – the increase to residential customers while decreasing rates for commercial customers, and the consolidation of CenterPoint's four divisions into a single rate division – warrant a closer review of its cost-allocation study.

CenterPoint also proposes an overall profit margin of about 8.25%, based on a return on equity of 10.50% and a capital structure comprised of 60.61% equity and 39.39% long-term debt. As with CenterPoint's proposed allocation of costs, its cost of capital, too, will require a thorough review.

The tables below show the changes in revenue CenterPoint proposes for each of its divisions. We present the information for all the divisions so that the City is informed on the effect of CenterPoint's proposal overall:

Houston Division Classes	Number of Customers (Total/Commission OJ)	Non-Gas Revenue Change, exclusive of revenue-related taxes
Residential	1,086,874 / 573,213	\$66.332 million
General Service – Small	52,890 / 22,832	(\$0.799) million
General Service – Large Volume	1,439 / 428	(\$6.508) million
TOTAL	1,141,202 / 596,473	\$59.024 million
Texas Coast Division Classes	Number of Customers (Total/Commission OJ)	Non-Gas Revenue Change, exclusive of revenue-related taxes
Residential	360,526 / 142,014	\$22.963 million
General Service – Small	17,876 / 6,842	(\$0.254) million
General Service – Large Volume	255 / 60	(\$1.496) million

TOTAL	378,656 / 148,917	\$21.214 million
South Texas Division Classes	Number of Customers (Total/Commission OJ)	Non-Gas Revenue Change, exclusive of revenue-related taxes
Residential	149,052 / 55,181	(\$17.190) million
General Service – Small	11,762 / 5,860	(\$5.544) million
General Service – Large Volume	241 / 131	(\$0.868) million
TOTAL	161,055 / 61,173	(\$23.602) million
Beaumont/East Texas Division Classes	Number of Customers (Total/Commission OJ)	Non-Gas Revenue Change, exclusive of revenue-related taxes
Residential	171,537 / 72,120	(\$13.715) million
General Service – Small	20,007 / 8,860	(\$5.154) million
General Service – Large Volume	444 / 170	(\$0.378) million
TOTAL	191,988 / 81,150	(\$19.247) million

In terms of customers' bills, the tables below show the effect of CenterPoint's proposed changes in rates:

For Customers in the Houston Division

	Non-Gas Revenue Change \$ MM	Percentage Change With/Without Gas Costs**		Average Current Monthly Bill, including Gas Cost*	Average Proposed Monthly Bill, including Gas Cost*	Proposed Monthly Change
<u>@ 14.95 PSI:</u>						
Residential	\$66.3	11.7%	20.5%	\$43.62	\$48.74	\$5.12
General Service-Small	-\$0.8	-0.6%	-3.2%	\$140.32	\$139.42	-\$0.90
General Service-Large Volume	-\$6.5	-18.5%	-66.0%	\$2,009.59	\$1,637.69	-\$371.90

For Customers in the Texas Coast Division

	Non-Gas Revenue Change \$ MM	Percentage Change With/Without Gas Costs**		Average Current Monthly Bill, including Gas Cost*	Average Proposed Monthly Bill, including Gas Cost*	Proposed Monthly Change
<u>@ 14.95 PSI:</u>						
Residential	\$23.0	12.4%	21.8%	\$43.36	\$48.74	\$5.38
General Service-Small	-\$0.3	-0.8%	-3.3%	\$113.69	\$112.78	-\$0.91
<u>@ 14.65 PSI:</u>						
General Service-Large Volume	-\$1.5	-22.4%	-71.3%	\$2,167.09	\$1,682.52	-\$484.57

For Customers in the South Texas Division

	Non-Gas Revenue Change \$ MM	Percentage Change With/Without Gas Costs**		Average Current Monthly Bill, including Gas Cost*	Average Proposed Monthly Bill, including Gas Cost*	Proposed Monthly Change
<u>@ 14.95 PSI:</u>						
Residential	-\$4.7	-24.0%	-25.7%	\$54.16	\$41.17	-\$12.99
General Service-Small	-\$1.5	-31.9%	-51.4%	\$202.72	\$138.05	-\$64.67
<u>@ 14.65 PSI:</u>						
Residential	-\$12.5	-23.9%	-25.6%	\$53.68	\$40.84	-\$12.84
General Service-Small	-\$4.0	-32.0%	-51.3%	\$199.63	\$135.79	-\$63.84
General Service-Large Volume	-\$2.2	-26.7%	-57.0%	\$2,904.18	\$2,128.80	-\$775.38

For Customers in the Beaumont/East Texas Division

	Non-Gas Revenue Change \$ MM	Percentage Change With/Without Gas Costs**		Average Current Monthly Bill, including Gas Cost*	Average Proposed Monthly Bill, including Gas Cost*	Proposed Monthly Change
<u>Beaumont/East Texas Division (without North East Texas/Tyler)</u>						
<u>@ 14.95 PSI:</u>						
Residential	-\$3.4	-9.1%	-18.1%	\$56.10	\$51.02	-\$5.08
General Service-Small	-\$1.2	-10.1%	-37.0%	\$142.94	\$128.49	-\$14.45
<u>@ 14.65 PSI:</u>						
Residential	-\$5.4	-9.0%	-17.9%	\$55.48	\$50.49	-\$4.99
General Service-Small	-\$2.3	-10.4%	-37.2%	\$141.03	\$126.43	-\$14.60
General Service-Large Volume	-\$0.2	2.9%	-25.4%	\$1,753.03	\$1,804.23	\$51.20
<u>Beaumont/East Texas Division (North East Texas/Tyler only)</u>						
<u>@ 14.73 PSI:</u>						
Residential	-\$1.6	-4.0%	-18.0%	\$52.76	\$50.64	-\$2.12
General Service-Small	-\$0.7	-1.5%	-37.3%	\$128.85	\$126.97	-\$1.88
<u>@ 14.65 PSI:</u>						
Residential	-\$3.4	-4.0%	-17.9%	\$52.61	\$50.49	-\$2.12
General Service-Small	-\$1.0	-1.6%	-37.3%	\$128.43	\$126.43	-\$2.00
General Service-Large Volume	-\$0.1	18.0%	-26.1%	\$1,529.55	\$1,804.23	\$274.68

CITY JURISDICTION TO SET CENTERPOINT'S RATES

Municipalities have exclusive, original jurisdiction over a gas utility's rates, services, and operations within a city's boundaries. But, the Railroad Commission has appellate jurisdiction over rate-setting decisions a city makes. This means that CenterPoint may appeal to the Railroad Commission, a city's decision regarding rates.

REPRESENTATION

As part of the Alliance of CenterPoint Municipalities (“ACM”), the City in prior applications filed by CenterPoint has engaged the law firm of Herrera Law & Associates as Special Counsel to review CenterPoint’s application. The attached Resolution, if adopted, continues that relationship.

RATE CASE EXPENSES

Cities, by statute, are entitled to recover their reasonable rate case expenses from the utility. The accompanying Resolution directs CenterPoint to continue to reimburse ACM’s rate case expenses on a monthly basis based on presentation of invoices from the cities.

CITY ACTION

At this juncture the City's options are to:

1. Do nothing, which means that CenterPoint's proposed change in rates will go into effect on Dec. 4, 2023;
2. “Suspend” CenterPoint's proposed effective date by 90 days, thus giving the cities 125 days to review CenterPoint's application and make a final decision or
3. Deny CenterPoint's proposed change in rates; a denial of the application will mean that CenterPoint will file an appeal to the Railroad Commission.

RECOMMENDATION

Because CNP filed its application with the Railroad Commission on the same day it filed with the cities, and given how quickly these cases move, ACM’s Special Counsel recommends that the City deny CenterPoint’s proposed change in rates and expeditiously intervene in the case at the Railroad Commission. Thus, if adopted the attached resolution:

1. Denies CNP's proposed increase in revenue and change in rates;
2. Directs CenterPoint to reimburse the ACM cities' rate-case expenses;
3. Authorizes:
 - A. Continued participation in ACM;
 - B. Intervention in proceedings at the Railroad Commission of Texas and related proceedings, including appeals, if any;
 - C. Representation of the City by the law firm of Herrera Law & Associates, PLLC as part of ACM.

The City must take final action on CenterPoint’s proposed increase by no later than December 4, 2023.