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ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE APPLICATION OF)
CENTERPOINT ENERGY RESOURCES)
CORP., D/B/A CENTERPOINT ENERGY)
ARKANSAS GAS, FOR A GENERAL)
CHANGE OR MODIFICATION IN ITS)
RATES, CHARGES, AND TARIFFS)

DOCKET NO. 06-161-U
ORDER NO. 6

ORDER

On January 16, 2007, CenterPoint Energy Arkansas Gas (“CEA” or the “Company”) filed an Application in the above-styled proceeding pursuant to Ark. Code Ann. §23-4-402 seeking Arkansas Public Service Commission (the “Commission”) approval of a general rate increase of approximately \$50.9 million without approval of CEA’s proposed Trial Billing Determinant Adjustment Clause (“TBDAC”) or \$49.9 with approval of the TBDAC.¹ In support of its Application, CEA filed the initial Prepared Testimonies of Jeffrey A. Bish, Walter L. Bryant, F. Jay Cummings, Walter L. Fitzgerald, Paul D. Gastineau, Alan D. Henry, Robert B. Hevert, Jay Joyce, Scott M. Prochazka, and Dane A. Watson.

On July 17, 2007, in response to CEA’s Application and initial Prepared Testimony, the General Staff of the Arkansas Public Service Commission (“Staff”) filed the initial Prepared Testimonies of Kim Davis, Alice Wright, Gayle Freier, Ron Garner, Rick Dunn, Don Malone, Adrienne R. W. Bradley, Robert Booth, Cindy L. Ireland, Gail P. Fritchman, and, David C. Parcell. Therein the Staff recommended that CEA receive a rate increase of only \$13.2 million.

¹ Per CEA, the TBDAC was proposed to address CEA’s declining customer count and natural gas usage per customer and usage decline resulting from the implementation of energy efficiency rules proposed by the Commission. (CEA witness Bryant Direct Testimony at 2—3) In its Prepared Testimony, Staff filed a mechanism



Also, on July 17, 2007, the Attorney General of Arkansas (“AG”) filed the Direct Testimony of William B. Marcus and Arkansas Gas Consumers, Inc. (“AGC”) filed the Direct Testimonies of James W. Collins, Jr. and Alan Chalfant.

CEA, on August 14, 2007, filed the Rebuttal Testimonies of Robert B. Hevert, Jay Joyce, Scott M. Prochazka, Dane A. Watson, Alan D. Henry, Walter L. Bryant, Jeffrey A. Bish, F. Jay Cummings, Walter L. Fitzgerald, and Paul D. Gastineau. In its Rebuttal filing, CEA reduced its rate increase request from approximately \$49.9 million to approximately \$35.3 million.²

On September 6, 2007, the Staff filed the Surrebuttal Testimonies of Alice D. Wright, Ronald G. Garner, Robert Booth, Kim Davis, Don Malone, Cindy L. Ireland, Gail P. Fritchman, Rick Dunn, Gayle Freier, Adrienne R. W. Bradley, and David C. Parcell. Therein the Staff increased its recommended rate increase from approximately \$13.2 to approximately \$18.1 million. Also, on September 6, 2007, the AG filed the Surrebuttal testimony of William B. Marcus and AGC filed the Surrebuttal Testimonies of James W. Collins, Jr. and Alan Chalfant.

CEA, on September 12, 2007, filed the Sur-surrebutal Testimonies of Walter L. Bryant, F. Jay Cummings, Walter L. Fitzgerald, Paul D. Gastineau, Alan D. Henry, Dane A. Watson, Jay Joyce, Robert B. Hevert, and Scott M. Prochazka. Therein CEA dropped its rate increase request from approximately \$35.3 million to approximately \$30.4 million, approximately \$12.3 million more than recommended by the Staff.

On September 25, 2007, CEA, and the Staff (collectively the “Settling Parties”) filed a *Joint Motion to Approve Stipulation and Agreement* (the “Agreement”). The Agreement was

similar to CEA’s TBDAC tariff called the Billing Determinant Adjustment tariff which CEA accepted subject to modifications proposed by CEA. (CEA witness Gastineau Rebuttal Testimony at 1-2)

offered by the Settling Parties to resolve all outstanding issues in this docket. The Agreement³ is attached hereto as Exhibit 1. In support of the Agreement the Settling Parties, also on September 25, 2007, filed the Settlement Testimonies of Robert Booth for the Staff and Walter L. Fitzgerald for CEA. While not signatories to the Agreement, the AG and AGC state that they will not oppose the Commission's approval of the Agreement. The Agreement provides for a rate increase for CEA of approximately \$20 million, approximately \$30 million less than initially requested by CEA.

Public Hearings

Pursuant to Ark. Code Ann. §23-2-103 (b), an opportunity for public comments on CEA's rate increase request was extended by the Commission during the evidentiary hearing in Little Rock, Arkansas, October 2, 2007, and during public comment hearings conducted on October 11, 2007, at the Holiday Inn located in Texarkana, AR, and on October 16, 2007, at the Huntington Building in Jonesboro, AR.⁴ At the Little Rock evidentiary hearing, no individuals offered public comments on CEA's rate increase request. At the Texarkana public hearing, two public comments were offered. At the Jonesboro public hearing no public comments were offered. Also, the Commission received a total of fifteen email or telephone comments on CEA's rate increase request. Sixteen of the seventeen total public comments offered were opposed to CEA's request for a rate increase.

² Both CEA (CEA witness Cummings Rebuttal Testimony at 2) and Staff (Staff witness Bradley Direct Testimony at 25) recommended approval of some type of billing determinant adjustment tariff which had the impact of lowering CEA's original requested rate increase from \$50.9 to \$49.9 million (CEA witness Bryant Direct Testimony at 3).

³ Most of the attachments to the Agreement are omitted from Exhibit 1 hereto. However, the attachments can be viewed in their entirety at http://www.apscservices.info/PDF/06/06-161-u_187_2.pdf (Part 1) and at http://www.apscservices.info/PDF/06/06-161-u_187_3.pdf (Part2)

⁴ By Order No. 4 issued on February 15, 2007, the Commission set the dates for the two public comment hearings.

Though public comments are highly valued by the Commission, the Commission cannot lawfully base decisions upon the public comments of the Company's customers without violating the due process rights of the Company or the other official parties in this Docket. Public comments are not subject to pre-hearing evidentiary discovery by the official parties, and are not subject to cross-examination by the official parties during the evidentiary hearing. Thus, public comments do not constitute substantial evidence upon which the Commission by law must base its decisions. However, the Commission does take all public comments into consideration in its efforts to reach a balanced decision that is lawful and fair to both the Company and its customers.

Litigation Positions of the Parties

In its initial rate increase Application, CEA requested a \$49,921,579 rate increase with approval of its TBDAC tariff based on an overall non-gas revenue requirement of \$182,329,306. Also, with the approval of the TBDAC tariff, CEA proposed an overall rate of return of 6.16% which results in a requested return on equity of 10.90%. CEA indicated that the three reasons requiring it to seek a rate increase were: (1) current rates do not afford CEA the opportunity to recover its operating expenses and cost of capital; (2) declining use per customer along with declining customer counts has led to declining revenues and increasing costs; and (3) the Commission has established rules for energy efficiency programs which would have the effect of accelerating declines in per customer usage.

On July 17, 2007, in response to CEA's Application and Initial testimony, the Staff filed its Initial case and the testimonies of its witnesses. Therein the Staff recommended a revenue increase of \$13,161,867 based on a non-gas revenue requirement of \$147,389,105. Staff proposed an overall rate of return of 5.31% and a return on equity of 9.75% with a further

reduction of 25 basis points to 9.50% if its Billing Determinant Adjustment (“BDA”) tariff is approved. The major revenue requirement differences between CEA’s direct case and Staff’s direct case are the result of differences related to: the return on equity, payroll and payroll taxes, plant in service differences, short and long-term debt cost differences, call center expense differences, depreciation rates and expense differences, employee benefit expense differences, city franchise fee differences, and differences in the classification and allocation of distribution mains. The Staff recommended that the Commission reject CEA’s TBDAC tariff and accept Staff’s recommended BDA tariff. Staff’s BDA tariff, like CEA’s TBDAC tariff, specifies that no rate adjustment would be made if CEA’s total non-gas margin revenues are equal to or greater than its approved revenue requirement. Other provisions included a date certain on which the BDA tariff would expire which could be extended if CEA files an application requesting to extend the effective period of the BDA tariff.

The AG and AGC, also on July 17, 2007, filed the Direct Testimonies of its witnesses. Neither the AG nor the AGC addressed all aspects of CEA’s rate case. The AG addressed CEA’s TBDAC tariff, rate of return, incentive bonus programs, directors and officers insurance, rate case expense, dues and donations, the allocation of expenses to Arkansas, uncollectible accounts expense, late payment charge revenue, the revenue conversion factor, and cost allocation and rate design. The AGC addressed the class cost of service including the allocation of distribution mains, CEA’s proposed allocation of revenue responsibility to customer classes and the rate design for the Large Commercial rate class.

On August 14, 2007, CEA filed its Rebuttal Testimony revising its rate increase request downward from \$49.9 million to \$35,322,118 based on an overall non-gas revenue requirement

of \$169,549,356. CEA's rebuttal case reflects an overall rate return of 6.95% and a return on equity of 10.75% if a BDA tariff is implemented. In its rebuttal case, CEA opposed the Staff and/or other parties on various issues including: return on equity, plant in service, working capital-related issues, capitalized SAP costs, pension expense, severance expense, dues and donations, depreciation rates and expense, call center expenses, payroll and payroll taxes, short-term and long-term pay incentives, rate case expense, audit findings, pipeline integrity management costs, director's and officer's liability insurance, vehicle fuel expense, regulator station painting, ROW clearing, facilities maintenance, revenue conversion factor, and cost allocation and rate design.

CEA also recommended several changes to Staff's proposed BDA tariff, i.e. (1) the language allowing the use of a revenue surplus in an applicable rate class to be used to offset an initial revenue shortfall in any other applicable rate class should be restored; (2) the Class Billing Determinant Test should be eliminated; and (3) the expiration language should be modified so that CEA may file for one additional BDA tariff rate adjustment after filing an application for a general rate change, provided CEA had not already filed for a BDA tariff rate adjustment for the most recently ended calendar year.

In its Surrebuttal Testimony filed on September 6, 2007, the Staff recommended a rate increase of \$18,102,653 based on a non-gas revenue requirement of \$152,329,891. Staff proposed an overall rate of return of 5.68% and a return on equity of 9.5%. In its Surrebuttal Testimony, Staff opposed CEA and/or the AG and AGC on the following major issues: return on equity, short-term and long-term debt cost rates, plant in service, working capital asset-related issues, depreciation rates and expense, call center expenses, ROW clearing, facilities

maintenance, regulator station painting, payroll expense, short-term and long-term incentive pay, rate case expense, pipeline integrity management costs, directors and officers liability insurance, severance expense, leak repair expense, revenue conversion factor-related issues, and the classification of distribution mains.

In its Surrebuttal Testimony, the Staff recommended that the Commission accept Staff's proposed BDA tariff which was revised by Staff to: (1) add a provision requiring the netting of revenue surpluses and shortages of applicable rate cases; (2) address CEA's concerns regarding the class billing determinant test, and (3) modify the language governing the terms and conditions of the expiration of the BDA tariff in a manner that maintains an equitable balance between the interests of ratepayers and CEA. The Staff further recommended that the Commission reject CEA's requested modifications to the termination provision of the BDA tariff.

Also, on September 6, 2007, the AG and AGC filed the Surrebuttal Testimonies of their witnesses. In the AG's Surrebuttal Testimony, the AG addressed issues related to: return on equity, the cost of debt, SAP computer program allocation, retirement work in progress, working capital assets, incentive bonuses and stock options, dues and donations, director's and officer's insurance, audit sampling, vehicle fuel expense, revenue conversion-related issues, and the allocation of distribution mains. AGC's Surrebuttal Testimony addressed issues related to: CEA's cost of service study, and the cost classification of distribution mains.

CEA, in its Sur-Surrebuttal Testimony, filed on September 12, 2007, further reduced its rate increase request from \$35.3 million to \$30,381,081 based on a non-gas revenue requirement of \$164,608,319. In its Sur-Surrebuttal Testimony, CEA opposed the Staff and/or the AG and

AGC on various issues including: return on equity, cost of long-term debt, plant in service, working capital issues, depreciation rates and expense, ROW clearing, facilities maintenance, call center expense, regulator station painting, pipeline integrity management costs, rate case expense, revenue conversion factor-related issues, and the classification of distribution mains.

Also, in CEA's Sur-Surrebuttal Testimony, CEA proposed further changes to Staff's revised BDA tariff regarding: (1) the terms and conditions governing the expiration of the BDA tariff, (2) modifying Section 5.3 of the BDA tariff to account for the impact of Force Majeure, and (3) adding Section 5.5.8 in which Force Majeure is defined.

Then, on September 25, 2007, CEA and the Staff executed and filed a proposed Settlement Agreement. The Agreement was offered by CEA and the Staff in resolution of all issues in this proceeding and provides for a rate increase of approximately \$20 million.

Summary of the Agreement

General Provisions:

- The objective of the Agreement is to resolve all outstanding issues in this docket.
- The record has been fully developed and a complete discussion of the issues has been undertaken by the Settling Parties with each being a strong advocate for their respective testimony positions.
- Except for specific revisions to Staff's Surrebuttal Revenue Requirement and Cost Allocation, the Settling Parties agree to accept each of Staff's Surrebuttal case positions as filed on September 6, 2007.

Revenue Requirement:

- The Settling Parties agree that CEA's non-gas rate schedule revenue requirement is \$143,135,327, with a resulting revenue deficiency of \$20,031,358, exclusive of costs recovered through the Gas Supply Rate Rider ("GSR").
- CEA's non-gas revenue requirement is shown on Attachment No. 1 to the Agreement.
- The resulting revenue requirement and revenue deficiency were developed by adjusting Staff's Surrebuttal position as follows:
 1. Rate Base: Increased CEA's net plant in service by \$5,248,033.
 2. Operating Expenses: (a) increased CEA's call center by \$421,262; (b) increased CEA's rate case expense by \$583,403 based on a two-year amortization period; (c) increased CEA's depreciation expense related to the increase in net plant in service by \$86,306.
 3. Return on equity adjusted downward by 10 basis points with approval of the BDA tariff resulting in 9.65% (pre-tax overall rate of return 7.84).
 4. Allowance for Funds Used During Construction (AFUDC): CEA agrees that the AFUDC rate that CEA should use, from the date rates are approved in this case until CEA's next rate case, is the overall rate of return used in this case of 5.73%. Also, CEA will only calculate AFUDC on eligible additions, and not on the removal/retirement of replaced plant.
 5. Depreciation Expense: The depreciation rates used are set forth in Agreement Attachment 2, and reflect the rates and parameters proposed by Staff in Direct Exhibits GF-1 and GF-2.

6. Assignment of Customer Class Revenue Requirement: the resulting base rate revenue requirements for each rate class are as shown in this section.

Rates and Tariffs:

- The revenue increases assigned to: (1) Residential and Small Commercial Service rate classes will be recovered entirely through the usage rates adjusted to maintain the same rate differential between blocks, and (2) the Large Commercial Service rate class will be recovered entirely through the demand charge with 85 percent of the total demand charge collected in the first demand block and 15 percent collected in the second demand block.
- Attachment 3 to the Agreement reflects the new rates and tariffs agreed to by the Settling Parties. CEA and the Staff requests an expedited order by the Commission approving the Agreement so that new rates will become effective on bills rendered on and after November 1, 2007. The AG and the AGC do not object to the November 1, 2007, effective date.
- The new rates were developed using Staff's recommended billing determinants as set forth in Attachment 4 to the Agreement.
- The Settling Parties agree to the Billing Determinant Rate Adjustment tariff incorporated in Attachment 3 to the Agreement.
- The Settling Parties agree to the Main Replacement Rider, incorporated in Attachment 3 to the Agreement.
- The Settling Parties agree to the Order of Curtailment reflected in Attachment 3 to the Agreement.

Other:

- After approval of the Agreement, CEA shall: (1) track the actual cost of materials for each individual distribution main installation by pipe size and material, and (2) accumulate and maintain various types of actual data as listed in the Agreement.

Testimony in Support of the Agreement

Staff witness Booth's Settlement Testimony addressed the following topics: (1) revenue requirement and revenue deficiency; (2) assignment of customer class rate increases; (3) the BDA tariff; (4) the AFUDC rate; (5) recordkeeping; and (6) compliance tariffs. In comparing the difference between the non-gas rate schedule revenue requirement contained in the Agreement to Staff's Surrebuttal non-gas rate schedule revenue requirement, Mr. Booth testified that:

The non-gas Rate Schedule Revenue Requirement reflected in the Agreement is \$1,928,706 more than Staff's Surrebuttal Rate Schedule Revenue Requirement. (Booth Settlement Testimony at 2)

In describing the adjustments made to Staff's Surrebuttal case to arrive at the revenue requirement and revenue deficiency contained in the Agreement, Mr. Booth stated that:

As set forth in the Agreement, there are four adjustments that reflect additional information available to Staff since the filing of its Surrebuttal Testimony. Aside from these adjustments, the agreed upon Revenue Requirement reflects Staff's position as reflected in its Surrebuttal filing. (Booth Settlement Testimony at 3)

In explaining how the BDA tariff contained in the Agreement reflects the acceptance of Staff's recommended BDA tariff, Mr. Booth responded that:

With minor modifications, yes. The annual evaluation report filing date and effective date of the resulting rate adjustment was changed from May 1 to April 1, and July 1 to June 1, respectively. In addition, a reduction of 10 basis points was made to Staff's recommended return on equity of 9.75%. (Booth Settlement Testimony at 5)

In summarizing why he believes the Agreement is in the public interest, Mr. Booth testified that:

Based on the evidence provided in Staff's Surrebuttal filing, the adjustment of certain items in light of new information, and the fact that the assignment of the rate increase resulting from the Agreement among the customer classes is also well within the range of reasonable outcomes if the rate cost allocation and rate design issues were litigated, I support the Agreement as being in the public interest and recommend it be approved. (Booth Settlement Testimony at 7)

In describing the process that lead to the negotiation of the Agreement, CEA witness Fitzgerald, testified that:

Following the filing of the Company's Sur-surrebuttal testimony, Staff prepared and distributed a proposed settlement agreement on September 14, 2007. The proposed settlement agreement was offered as a good faith attempt to reach an agreement among all the parties to resolve all issues of revenue requirement and the assignment of that revenue requirement to the rate classes. Minor revisions were made to the proposed settlement agreement and ultimately the Agreement was reached. (Fitzgerald Settlement Testimony at 3)

Mr. Fitzgerald states that CEA believes the Agreement is a reasonable compromise and in the public interest:

The Company believes we were able to find common ground and work collaboratively with the parties rather than litigate an extended rate case, which can be costly both in dollars and in resources that could otherwise be devoted to serving our customers. Additionally, the Agreement includes a decoupling mechanism which allows us the opportunity to earn a fair return while better aligning our interests with the conservation and energy efficiency interests of our customers and the APSC. Therefore, the Company supports the Agreement as a reasonable compromise and accepts the provisions addressed in the Agreement. (Fitzgerald Settlement Testimony at 4)

In explaining the impact the Agreement will have on the average residential customer, Mr. Fitzgerald testified that:

The impact on each customer will vary depending upon the customer's usage. Assuming an average monthly usage per customer of 50 Ccf, the impact on an

average residential customer's monthly bill is \$3.24, which is approximately a 4.6% increase from current rates. (Fitzgerald Settlement Testimony at 4)

Conclusion

After a thorough review of the parties' extensive pre-filed testimonies and exhibits introduced in this proceeding, and a careful evaluation of the Agreement in light of the litigation positions of the parties, the Commission finds that there is substantial evidence of record to support a finding that the Agreement represents a just and reasonable resolution of all issues and is in the public interest. The Commission further finds that the Agreement produces an overall revenue requirement that is within a reasonable range of the possible litigated outcomes that could be reached in this case.

CEA's initial rate increase request of approximately \$51 million, if approved based upon the rate design proposed therein, would have caused a residential ratepayer's bill to increase by an average of approximately \$6.47 per month or approximately \$77.64 per year. However, under the Agreement, the average⁵ residential ratepayer's bill will increase by only approximately \$3.24 per month or approximately \$38.88 per year. Further, the Commission notes the following revenue deficiencies and total revenue percentage increase comparisons overall as well as for each customer class, showing the results of the Agreement compared to CEA's original Application,⁶ and the Staff's Surrebuttal litigation position:

	CEA Application	Staff Surrebuttal Case	Settlement Agreement
Total Deficiency	\$50,943,073	\$18,102,653	\$20,031,359
Total % Increase/Decrease	11.03%	3.71%	4.10%
Residential	14.22%	4.37%	4.93%
Small Commercial	5.65%	1.45%	2.55%
Large Commercial	7.11%	11.69%	4.23%

⁵ Based on average usage of 50 Ccf per month.

⁶ Note that the data for CEA's Application reflects CEA's requested rate increase without a BDA tariff.

Finally, the Commission appreciates the work of the parties to implement a BDA tariff for CEA. The primary purpose of the BDA is to account for a decline in CEA's billing determinants subsequent to the implementation of new rates authorized by this Order. As such the BDA should reduce the frequency of rate increase applications by CEA. Additionally, the BDA should further the Commission's conservation and energy efficiency policy objectives as set out in Commission Docket No. 06-004-R. Accordingly, the Commission believes that the BDA tariff should benefit both CEA and its customers.

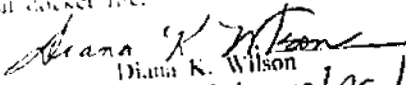
THEREFORE, the Commission finds, orders, and directs as follows:


1. The Agreement is supported by substantial evidence of record and is in the public interest. Accordingly, the Agreement is hereby approved.
2. The new rates and tariffs⁷, (Attachment 3 to the Agreement) are approved effective for all CEA bills rendered on and after November 1, 2007.

BY ORDER OF THE COMMISSION.

This 25th day of October, 2007.

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record this date by U.S. mail with postage prepaid, using the address of each party as indicated in the official docket file.


Diana K. Wilson
Secretary of the Commission
Date 10/25/07


Paul Suskie, Chairman


Daryl E. Bassett, Commissioner

⁷ The Staff states that CEA's compliance tariffs (also filed separately on September 25, 2007) have been reviewed and found to accurately reflect the terms of the Agreement. (Booth Settlement Testimony at 6)

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF CENTERPOINT ENERGY RESOURCES)	
CORP., D/B/A CENTERPOINT ENERGY)	DOCKET NO. 06-161-U
ARKANSAS GAS, FOR A GENERAL)	
CHANGE OR MODIFICATION IN ITS)	
RATES, CHARGES AND TARIFFS)	

STIPULATION AND SETTLEMENT AGREEMENT

The General Staff of the Arkansas Public Service Commission (Staff) and CenterPoint Energy Resources Corp., D/B/A CenterPoint Energy Arkansas Gas (CEA or the Company), hereinafter referred to as "the Settling Parties," agree to the following terms as set forth in this Stipulation and Settlement Agreement (Agreement).

1. GENERAL

A. The objective of this Agreement is to resolve all outstanding issues in this Docket.

B. CEA filed an Application for approval of a general change in rates and tariffs on January 16, 2007 along with the Prepared Testimony and/or Exhibits of ten witnesses. CEA proposed a specified level of revenue requirement and corresponding rates and made certain other proposals. After conducting extensive discovery, Staff, the Attorney General of Arkansas (AG), and Arkansas Gas Consumers, Inc. (AGC) responded in Direct Testimony and Exhibits filed on July 17, 2007. CEA filed Rebuttal Testimony and Exhibits on August 14, 2007. Staff, the AG, and AGC filed Surrebuttal Testimony and Exhibits on September 6, 2007. CEA filed Sur-Surrebuttal Testimony and Exhibits on September 12, 2007. The record has been fully developed and a complete discussion of the issues has been undertaken by the Settling Parties, with each being a strong advocate for their respective positions as reflected in their pre-filed

testimony. The Settling Parties agree to accept each of Staff's Surrebuttal case positions filed on September 6, 2007, except for the specific revisions to Staff's Surrebuttal Revenue Requirement and Cost Allocation explained as follows in this Agreement.

2. REVENUE REQUIREMENT

A. The Settling Parties agree that CEA's Non-gas Rate Schedule Revenue Requirement is \$143,135,327, with a resulting Revenue Deficiency of \$20,031,358, exclusive of the costs to be recovered through the Gas Supply Rate Rider (GSR). CEA's Non-gas Revenue Requirement is shown on Attachment No. 1 to this Agreement.

B. While the agreed upon Revenue Requirement and Cost Allocation reflects a negotiated settlement of all Revenue Requirement issues, the Settling Parties agree that the Revenue Requirement and Revenue Deficiency were developed by adjusting Staff's Surrebuttal positions as follows:

1. Rate Base:

Increased CEA's Net Plant In Service by \$5,248,033.

2. Operating Expenses:

a. Increased CEA's call center expense by \$421,262;

b. Increased CEA's rate case expense by \$583,403, based on a two-year normalization period; and,

c. Increased CEA's depreciation expense related to the increase in Net Plant- In- Service by \$86,306.

3. Return on Equity with Billing Determinant Adjustment (BDA) Tariff:

Return on Equity adjustment for BDA Tariff to 10 basis points resulting in 9.65% (pre-tax overall rate of return of 7.84%).

4. Allowance for Funds Used During Construction:

CEA agrees that the rate it shall use to compute Allowance for Funds Used During Construction, effective from the date of the order approving rates in this Docket until such time as rates are re-established in CEA's next rate case, is the overall rate of return included in developing the Revenue Requirement in this case of 5.73%. In addition, CEA will only calculate AFUDC on eligible additions, and no AFUDC will be calculated on the removal/retirement of plant being replaced.

5. Depreciation Expense:

The depreciation rates to be used are set forth in Agreement Attachment 2 hereto, and reflect the rates and parameters proposed in Staff Direct Exhibits GF-1 and GF-2.

C. Assignment of Customer Class Revenue Requirement:

The resulting base rate revenue requirements for each rate class shall be as follows:

	Revenue Requirement ¹
Residential	\$106,957,809
Small Commercial Service (SCS)	29,809,062
Large Commercial Service (LCS-1)	<u>6,368,456</u>
Total	\$143,135,327

3. RATES AND TARIFFS

A. The revenue increases assigned to Residential and Small Commercial Service rate classes will be recovered entirely through the usage rates. The usage rates will be adjusted so as to maintain the same rate differential between blocks. The revenue increase assigned to the Large Commercial Service rate class will be recovered entirely through the demand charge with

¹ The revenue requirements are inclusive of the special contract revenues and the reallocation of the transportation administrative fees as shown on Staff Surrebutal Exhibit ARWB-1.

JOINT EXHIBIT 1

85 percent of the total demand charge collected in the first demand block and 15 percent of the total demand charge collected in the second demand block.

B. Attached as Agreement Attachment No. 3 are the new rates and tariffs agreed to by the parties to effectuate this Agreement. The Settling Parties agree that the Company will request, and the other parties will not oppose, an expedited order approving this Agreement so that the new rates can become effective on bills rendered on and after November 1, 2007.

C. The new rates were developed using Staff's recommended billing determinants as set forth in the Agreement Attachment No. 4.

D. The Settling Parties agree to the Billing Determinant Rate Adjustment Tariff incorporated as a part of Agreement Attachment No. 3.

E. The Settling Parties agree to the Main Replacement Rider, incorporated as a part of Agreement Attachment No. 3, containing Staff's depreciation rates for Account No. 376.001, Mains – Excluding Cast-Iron Mains, and Account No. 380.000, Services, of 2.74% and 4.96%, respectively, a 7.84% pre-tax rate of return, and the class allocation percentages of 71.28% for Residential Service, 20.76% for Small Commercial Service, and 7.96% for Large Commercial Service.

F. The Settling Parties agree to the Order of Curtailment reflected as a part of Agreement Attachment No. 3.

4. OTHER

The Settling Parties agree to accept the following recommendations and reporting requirements:

A. After approval of this Agreement, CEA shall track the actual costs of materials for each individual distribution main installation by pipe size and material. In addition, for each

distribution main installation by pipe size and material, CEA shall accumulate and maintain the following actual data:

1. Authorization for expenditure or job number;
2. Code identifying the type of material, e.g. plastic, steel, cast iron, and a number identifying the size of the pipe in inches;
3. Number of units, e.g. footage for pipe, count for fittings and valves;
4. Cost of materials;
5. Cost of labor;
6. Cost of overhead; and
7. Allowance for Funds Used During Construction (AFUDC).

5. RIGHTS OF THE PARTIES

A. This Agreement is made upon the explicit understanding that it constitutes a negotiated settlement which is in the public interest. Nothing herein shall constitute an admission of any claim, defense, rule, or interpretation of law, allegation of fact, principle or method of ratemaking, or cost-of-service determination or rate design, or terms or conditions of service, or the application of any rule, or interpretation of law, that may underlie, or be perceived to underlie, this Agreement.

B. This Agreement is expressly contingent upon its approval by the Commission without modification. The various provisions of this Agreement are interdependent and unseverable. All the Settling Parties shall cooperate fully in seeking the Commission's acceptance and approval of this Agreement. The Settling Parties shall not support any alternative proposal or settlement agreement while this Agreement is pending before the Commission.

C. Except as to matters specifically agreed to be done or to occur in the future, no party shall be precluded from taking any positions on the merits of any issue in any subsequent

JOINT EXHIBIT I

proceeding in any forum. This Agreement shall not be used or argued as establishing precedent for any methodology or rate treatment in any future proceeding.

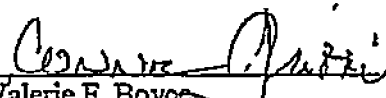
D. In the event that the APSC does not accept, adopt, and approve this Agreement in its entirety and without modification, the Settling Parties agree that this Agreement shall be void and of no effect. In that event, however, the Settling Parties agree that (1) no party shall be bound by any of the provisions or agreements herein contained; (2) all the Settling Parties shall be deemed to have reserved all their respective rights and remedies in this proceeding; and, (3) no Settling Party shall introduce this Agreement or any related writing, discussions, negotiations, or other communications of any type in any proceeding.

E. This Agreement does not alter prior regulatory commitments of the Company.

Respectfully submitted,


General Staff of the Arkansas
Public Service Commission

By:


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Little Rock, AR 72203-0400
(501) 682-5878

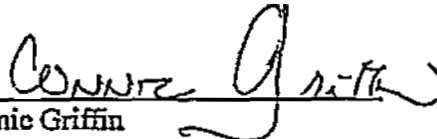
JOINT EXHIBIT 1

CenterPoint Energy Resources Corp., D/B/A
CenterPoint Energy Arkansas Gas

By: 
Kenny W. Henderson
Assistant General Counsel
CenterPoint Energy Arkansas Gas
401 West Capitol Avenue, Suite 102
Post Office Box 75 1
Little Rock, Arkansas 72203-0751
(501) 377-4850

CERTIFICATE OF SERVICE

I, Connie Griffin, hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by First Class Mail, postage prepaid or electronically, this 25th day of September, 2007


Connie Griffin

(1)	(2)	(3)
<u>Line No.</u>	<u>Description</u>	<u>Settlement Case</u>
1	Adjusted Rate Base	<u>\$ 519,304,163</u>
2	Adjusted Operating Revenue	\$ 134,227,238
3	Total Exp before Inc Tax	\$ 113,567,825
4	Income Taxes	\$ 3,051,968
5	Adjusted Operating Expense	<u>\$ 116,619,793</u>
6	Adjusted Operating Income	<u>\$ 17,607,445</u>
7	Current Rate of Return	3.39%
8	Required Rate of Return	5.73%
9	Required Operating Income	<u>\$ 29,756,129</u>
10	Operating Income Deficiency	\$ 12,148,684
11	Revenue Conversion Factor	1.6489
12	Revenue Deficiency (Excess)	<u>\$ 20,031,358</u>
13	Total Revenue Requirement	<u>\$ 154,258,596</u>
14	Less: Other Revenues	<u>\$ 11,123,269</u>
15	Total Rate Schedule Revenue Requirement	<u>\$ 143,135,327</u>