

# **CenterPoint Energy Minnesota**

## **2008-2009 Rate Case**

### **Frequently Asked Questions (FAQs)**

#### **Who is CenterPoint Energy?**

CenterPoint Energy, Inc., headquartered in Houston, Texas, is a domestic energy delivery company that includes electric transmission and distribution, natural gas distribution, competitive natural gas sales and services, interstate pipelines and field services operations. The company serves more than five million metered customers primarily in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. Assets total over \$17 billion. With about 8,600 employees, CenterPoint Energy and its predecessor companies have been in business for more than 130 years. In Minnesota, CenterPoint Energy is the state's largest natural gas distribution utility, serving nearly 790,000 customers in 260 communities. The utility also operates a non-regulated business in Minnesota called Home Service Plus®. CenterPoint Energy employs approximately 1200 people in Minnesota. For more information, visit the Web site at [www.CenterPointEnergy.com](http://www.CenterPointEnergy.com).

#### **What is a rate case?**

A rate case is the regulatory process that public utilities (natural gas, electric and telephone) must follow to formally change their rates. The Minnesota Public Utilities Commission (MPUC) regulates rate changes, and any proposed changes must first go through a review process before receiving a final decision by regulators.

#### **What is the timeline for the rate filing?**

- |                     |                         |
|---------------------|-------------------------|
| ▪ November 3, 2008  | Filing with MPUC        |
| ▪ January 2, 2009   | Interim rates begin     |
| ▪ Early Spring 2009 | Public hearings         |
| ▪ Spring 2009       | Hearings before MPUC    |
| ▪ Late 2009         | MPUC final decision     |
| ▪ Late 2009         | Final rates implemented |

#### **What is the Minnesota Public Utilities Commission (MPUC)?**

The MPUC regulates utility service industries in Minnesota, i.e., electricity, natural gas and telephone. It is responsible for ensuring that vendors of these services provide safe, adequate and reliable service at fair, reasonable rates.

The MPUC consists of five commissioners appointed by the governor to six-year, staggered terms. By law, no more than three commissioners can be of the same political party and at least one commissioner must reside, at the time of appointment, outside the seven-county metropolitan area. The governor designates one of these commissioners to serve as chair.

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## **What are interim rates?**

Interim (temporary) rates are an approved percentage increase on all customer bills that are effective two months after a rate filing. In our filing, we requested an overall interim rate increase of \$51.3 million or 3.4 percent for all customers. These temporary rates are collected without changes to our rate structure. We are allowed to charge interim rates to recover the company's higher cost of providing natural gas service while regulators use the next 10 months to determine the final rates for approval.

Interim rates take effect January 2, 2009. Customers will see an increase of about \$3 per month on their bills. These rates will stay in effect until the MPUC issues a decision and final rates are implemented in late 2009. If the final approved rates are less than the interim rates, customers will receive a refund with interest for the difference. If final rates are higher than the interim rates, customers will not be required to make up the difference.

## **Where is the interim rate found on a customer's bill?**

Beginning January 2, 2009, the rate can be found as a line-item at the bottom of the bill statement.

## **What portions of residential monthly bills are being increased?**

Both the Monthly Basic Charge and the Delivery Charge for residential customers are proposed to increase. Our rate filing proposes to increase the Basic Charge for residential customers from \$6.50 to \$8 per month. The Delivery Charge is proposed to increase from \$0.14161 to \$0.19604, including the Gas Affordability Charge.

## **How will we customers be notified about the rate filing?**

A news release announcing the filing will be issued on November 3, 2008 and targeted groups (public officials, trade allies, etc.) will be informed. Customers will receive information in their bills or through Online Billing at the time of implementation of interim rates and again when final rates are implemented. It will also be available @ [www.centerpointenergy.com/ratecase](http://www.centerpointenergy.com/ratecase).

## **What is the process for public input on the rate filing?**

Hearings for the public will likely begin in early spring 2009. We will notify customers about the timing and location of the hearings through news releases, bill inserts, and newspaper ads and on our Web site.

An administrative law judge will oversee the hearings, and the public will be given the opportunity to comment about our request. Representatives from the company and regulatory agencies such as the Department of Commerce and the State Attorney General will be present at each hearing to answer questions. The filing may be examined at the following locations:

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- The company's headquarters at 800 LaSalle Ave., 14<sup>th</sup> floor, Minneapolis, MN 55402. (Mon. – Fri., 8 a.m. – 5 p.m.)
- The Office of Energy Security, 85 Seventh Place East, Suite 500, St. Paul, MN 55101; telephone: 651-296-6913; TTY: 651-296-2860 or, by visiting their Web site at [www.edockets.state.mn.us](http://www.edockets.state.mn.us) and enter filing #08-1075.

Anyone who wishes to formally intervene or testify in the case should contact:

- The Office of Administrative Hearings, 100 Washington Square, Suite 1700, 100 Washington Ave. S, Minneapolis, MN 55401-2138; telephone: 612-341-7600, TDD/TTY: 612-341-7346.
- The Minnesota Public Utilities Commission, 121 Seventh Place East, Suite 350, St. Paul, MN 55101-2147; telephone: 651-296-0406 or 800-657-3782; TTY: 800-627-3529 or
- E-mail [consumer.puc@state.mn.us](mailto:consumer.puc@state.mn.us).

**Does the MPUC have to approve the filing?**

No. The MPUC has an obligation to determine "just and reasonable" rates. The MPUC allows a utility company to recover costs that it deems to be reasonable and necessary in providing utility service. Typically in a rate filing, there are differences of opinion about whether certain costs of delivering natural gas service should be recovered. If regulators determine that costs should be lower than what the company proposed, the company's requested rates will be lowered accordingly.

**What happens if the full request is not approved?**

If the final rates approved by the MPUC are lower than interim rates, the difference is refunded to customers with interest. If the final rates are higher than interim rates, customers are not required to make up the difference. Final rates apply only to future gas bills – those effective after the rate case is approved.

**Why did the company file to change its rates?**

The rate filing is necessary to help the company recover distribution costs that have increased substantially. Our current rates do not allow us to recover the increased cost of doing business.

The main reasons delivery costs have increased are:

- Increased operating costs including higher bad debt expenses and the related collection and customer service costs, along with inflationary increases on other expenses.
- Increased costs related to conservation improvement programs
- Increased capital costs.

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- Declining use per customer, which affects the company's ability to recover distribution costs that, for the most part, do not change with the amount of gas used by customers. Use is declining because customers have reacted to higher natural gas prices by conserving energy, and because of more energy efficient equipment and building construction improvements.

#### **When was the last time the company increased base rates?**

We last filed to change our rates in 2005. The MPUC approved an increase of about 1.6 percent of annual revenues, which went into effect May of 2007. The effect on a typical residential customer was about \$1.84 per month.

#### **How much is the company asking for?**

Our filing is for \$59.8 million in annual revenues which is a 3.9 percent overall increase and reflects the increased costs of providing utility distribution services.

#### **How will the rate change affect monthly bills?**

The proposed rate changes will affect customers' monthly bills differently, depending on individual natural gas use and customer group. Bills also vary monthly because of changes in the cost of natural gas each month. This will not change.

Customers' bills contain three parts: Basic Charge, Delivery Charge and cost of gas (passed through directly to customers without mark-up). Our proposal seeks to recover only the cost of providing utility distribution service to customers – about 16 percent of the bill. The proposal does not affect wholesale gas costs – which comprise about 84 percent of the bill.

#### **How can the company justify a rate filing at this time?**

While we recognize concerns about unsettling economic conditions and the fact that other utilities are also filing rate cases, there is simply no ideal time to raise rates. Our distribution costs have increased and it is likely these increases will continue for the foreseeable future.

These higher costs cannot be overcome by any means other than to request new rates. The effect on the average residential customer would be an increase of about \$5.50 per month.

#### **What do you mean by declining use and why should you recover it?**

Average customer use has declined over the years as building construction has improved and appliances and equipment have become more energy efficient. In addition, natural gas customers have responded to higher prices by conserving more. The result is that, while more gas is used in the U.S. in total, the residential per customer use has declined. In our 2005 filing, the average customer used 986 therm annually; in this filing they will use 897 therms annually – or around a 10 percent decrease over three years.

Declining use per customer affects our ability to recover the costs of serving all customers because most of these costs are fixed and do not change, regardless of how much gas customers use.

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**What is the Basic Charge? Delivery Charge?**

Our distribution costs are about 16 percent of a customer's bill and are recovered through the Basic Charge and the energy Delivery Charge. The other part of a customer's bill (about 84 percent) is the cost of gas, which is passed through to customers on a dollar-for-dollar basis with no mark-up.

The Basic Charge partially covers the fixed costs of the services we provide every month, regardless of how much gas a customer uses. These fixed costs include meters, regulators, service lines – the basic facilities to get gas to customer homes and businesses.

The Delivery Charge recovers the costs not recovered through the Basic Charge and includes odorant, fuel to maintain the distribution system, and other operating and maintenance costs.

**What are the proposed Basic and Delivery charges?**

<b>Customer Type</b> (usage in therms)	<b>Current Monthly Basic Charge</b>	<b>Proposed Monthly Basic Charge</b>	<b>Current Delivery Charge - Per Therm (including GAP)</b>	<b>Proposed Delivery Charge - Per Therm</b>
<b>Residential</b> -- Basic charge	\$6.50	\$8.00	\$0.14161	\$0.19604
<b>Commercial/Industrial</b> - up to 1,500/year - 1,500 to 5,000/year - 5,000 or more/year	\$ 9.50 \$15.00 \$35.00	\$12.00 \$18.00 \$43.00	\$0.13804 \$0.13836 \$0.13428	\$0.17754 \$0.16104 \$0.14404
<b>Small Volume Dual Fuel Sales Service</b> - up to 120,000/year - 120,000 or more/year	\$50.00 \$75.00	\$60.00 \$90.00	\$0.09260 \$0.08633	\$0.10523 \$0.09950
<b>Large Volume Dual Fuel Sales Service</b>	\$400.00	\$500.00	\$0.04270	\$0.04270

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**Do you expect to get the full increase you've proposed?**

While regulators have historically approved less than the full amount requested by natural gas utilities, we have proposed rates that we believe are fair and reasonable.

**Are the new rates needed to recover higher natural gas prices?**

No. The wholesale cost of natural is passed through dollar-for-dollar to our customers with no mark-up. However, unprecedented higher natural gas prices have significantly affected our distribution costs.

**Are you planning to increase your rates in another year?**

Our focus is on this rate filing, with the goal of recovering our costs.

**Will your filing increase the cost of the Service Plus plan?**

No. The Service Plus plan is offered by the non-regulated part of our business and is not included in our filing.

**How much will the filing cost?**

The filing will cost approximately \$1.5 million, which is recovered through rates over multiple years.

**What will you do with the new revenue?**

We will use it to recover our costs, as stated in our filing, and to continue to operate a safe and reliable distribution system to serve our customers.

**Will your filing discourage conservation?**

No. Although reduced average customer use as a result of energy conservation is one of the reasons the filing is necessary, our rate filing affects only the distribution charges on a customer's bill – about 16 percent of the bill. The primary incentive for conserving, and the potential for real energy savings, is with the cost of gas – the other 84 percent of a customer's bill.

**What is the new rate design being proposed by the company?**

We have proposed a pilot rate adjustment mechanism, called the Conservation Enabling Rider (CER), so that the utility's revenue is separated from changes in the volume of natural gas used by customers. If approved, on an annual basis, the distribution margins would be "trued-up" to the distribution margins set in this rate case, on an average basis.

**Are other utilities proposing similar rate designs?**

Similar programs are in use by 26 other utilities in 13 other states. In 2007, the Minnesota Legislature passed legislation specifically permitting such a pilot program.

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## CUSTOMER IMPACT

### How will the new rates impact customer bills?

The rate filing seeks to increase the company's revenue by \$59.8 million annually or 3.9 percent of revenue – adding about \$5.50 to an average residential customer's monthly bill.

How these new rates affect individual monthly bills will vary based upon the amount of natural gas used by each customer and changes in the monthly cost of gas. Remember, interim rates (an increase of about \$3 per month) will be the first change customers see when they take effect on January 2, 2009.

Customer type (usage in therms) Annual average usage and bills divided by 12			
Sales Service	Average Monthly usage  Therms	Average Monthly Bill  <u>Current</u> rates	Average Monthly Bill  <u>Proposed</u> rates
<b>Residential</b>	75	\$94	\$99
<b>Commercial/industrial</b>			
up to 1,500/year	66	\$85	\$90
1,500 to 4,999/year	221	\$271	\$279
5,000 or more/year	1,065	\$1,265	\$1,283
<b>Small Volume Dual Fuel</b>			
up to 120,000/year	3,750	\$3,845	\$3,903
120,000 or more/year	16,250	\$16,419	\$16,648
<b>Large Volume Dual Fuel</b>			
	69,000	\$64,580	\$64,680

### How will Budget Plan customers be affected?

Customers enrolled in the Budget Plan (whose quotes were calculated prior to the rate case filing) will be subject to their annual mid-year review six months after their enrollment. For most Budget Plan customers, this will be in February 2009. This allows customer Budget Plan amounts to be adjusted up or down based on approved interim rates, actual weather conditions and changes in wholesale gas costs.

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**Why are residential customers seeing a larger proposed rate increase than large commercial customers?**

Currently, large commercial customers subsidize residential customers because commercial customers' rates are higher than the actual costs to serve them, and residential rates are lower than the actual cost to serve these customers.

Our proposed rate design seeks to have all customer classes recognize some increase and have the classes (such as the large commercial) currently paying more than it costs to serve them experience less of the increase.

**What are you doing to keep natural gas costs reasonable?**

We have the expertise and the experience to buy natural gas at the lowest reasonable prices in order to provide our customers with the best energy value:

- We secured ample supplies for the upcoming heating season.
- We work with about 20 of the largest suppliers in the U.S. and Canada and buy gas on a competitively bid basis.
- We acquired natural gas and filled our storage facilities over the spring and summer to meet customers' peak heating season requirements, and hedged or fixed the costs on a portion of that portfolio.
- Our supply portfolio includes contracts with varying terms, conditions and lengths.

**How do your proposed rates compare to those of other Minnesota companies?**

Our proposed residential rates compare favorably to the next largest natural gas provider in Minnesota – Xcel Energy. Our proposed Basic Charge is the same as Xcel's current charge (\$8.00). See table for proposed Delivery Charge rates:

	Current	Proposed	Current	Proposed
Residential Sales Service	Monthly <u>Basic</u> charge	Monthly <u>Basic</u> charge	Delivery Charge <u>Per Therm</u>	Delivery Charge <u>Per Therm</u>
<b>CenterPoint Energy (volumetric incl. GAP)</b>	\$6.50	\$8.00	\$0.1416	\$0.19604
<b>Xcel Energy – Gas</b>	\$8.00		\$0.1829	
<b>Greater MN Gas</b>	\$8.00		\$0.2750	
<b>MERC – PNG (filed a rate case 7/31/08)</b>	\$6.50	\$9.00	\$0.1177	\$0.1787
<b>MERC – NMU (filed a rate case 7/31/08)</b>	\$5.50	\$9.00	\$0.1941	\$0.2261

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**Is natural gas still a good value for customers?**

Yes! Natural gas is an excellent energy value – a clean, efficient and affordable fuel for home heating, water heating, and for providing fuel to industry. Even with today's higher prices, natural gas remains your best energy value.

DEFINITIONS

**Basic Charge:** Partially covers the cost of those services we provide every month, regardless of how much gas a customer uses. These fixed costs include maintenance of gas service lines and regulators; gas meters; meter reading; billing; maintaining facilities; and vehicles and equipment.

**Cost of Gas:** Covers the total costs paid to CenterPoint Energy to purchase and transport natural gas to our distribution system. The cost per therm usually varies from month to month as the prices we pay producers and suppliers change, typically increasing in the winter, when demand is high, and decreasing in the summer, when demand is low.

**Delivery Charge:** Recovers all the costs not recovered through the Basic Charge, including taxes, salaries, depreciation, interest, etc.

**Interim Rates:** Interim rates are a temporary approved overall percentage increase on all customer bills that are effective two months after a rate filing. These rates are collected without changes to our overall rate design (Basic Charge and Delivery Charge). We are allowed to charge interim rates to recover the company's higher cost of providing natural gas service while regulators use the next year to determine the final rates to approve.

**Therm:** A therm is a measurement unit for natural gas and is the equivalent of 100,000 BTUs. Our average residential customer uses approximately 897 therms per year.

**BTU:** British thermal unit