
NEW AREA SURCHARGE RIDER

Availability:

Service under this rate schedule is available only to geographical areas that have not previously been served by the Company. This rate schedule will enable natural gas service to be extended to areas where the cost would otherwise have been prohibitive under the Company's present rate and service extension policy. Nothing in this rate schedule shall obligate the Company to extend natural gas service to any area.

Applicability and Character of Service:

All customers on this rate shall receive service according to the terms and conditions of one of the Company's gas tariff services.

Rate:

As authorized by the MPUC, the total billing rate for any customer class will be the applicable cost of gas, approved rate (monthly basic plus delivery charge) for that customer class plus a fixed monthly new area surcharge. All customers in the same rate class will be billed the same surcharge. The New Area surcharge will be treated as a Contribution-in-Aid-of-Construction for accounting and ratemaking purposes.

Method:

A standard model will be used that is designated to calculate the total revenue requirement for each year of the average service life of the plant installed. The model will compare the total revenue requirements for each year with the retail revenues generated from customers served (actual and/or expected) by the project to determine if a revenue deficiency or revenue excess exists.

The Net Present Value (NPV) of the yearly revenue deficiencies or excesses will be calculated using a discount rate equal to the overall rate of return authorized in the most recent general rate proceeding. Projected customer CIAC surcharge revenues are then introduced into the model and the resultant NPV calculation is made to decide if the project is self supporting. A total NPV of approximately zero (\$0) will show a project is self supporting.

The model will be run each year after the initial construction phase of a project wherein actual amounts for certain variables will be substituted for projected values to track recovery of expansion costs and the potential to end the customer surcharge before the full term. The variables, which will be updated in the model, each year will be:

The actual capital costs and projected remaining capital costs for the project.

Number of customers used to calculate the surcharge revenue and the retail margin revenue;

The actual surcharge and retail revenue received to date and the projected surcharge and retail revenue for the remaining term of the surcharge.

NEW AREA SURCHARGE RIDER (CONTINUED)**Term:**

The term of service under this rate schedule shall vary from area to area depending on the service extension project. However, under no circumstances shall the surcharge applicable to any project remain in effect for a term to exceed thirty (30) years. The Company assumes the risk for under recovery of expansion costs, if any, which may remain at the end of the maximum surcharge term.

Expiration:

The surcharge for all customers in an area subject to the New Area Service Rider shall end on the date specified for the project tariff, on the date the approved revenue deficiency is retired, or at the end of thirty (30) years, whichever occurs first.

Revenue Requirements Model**Definitions:**

All terms describe contents and general operation of the Revenue Requirements Model used to determine a New Area Surcharge Rider for a project.

Column/Description

- 1) **Time Period:** Twelve (12) month calendar interval, which is one year of the project life. The year in which the project is constructed is designated as year 0.
- 2) **Year.**
- 3) **Gross Plant Investment:** Cumulative plant in service at the end of the year reduced by the net present value of surcharge revenues in year 0. Plant in service shall be all capitalized costs incurred to provide or capable of providing utility service to the consuming public. Capitalized costs will include items such as pipeline interconnects, pressure regulating facilities, measurement and instrumentation, lateral delivery lines, distribution mains, mapping, customer service lines, meters and regulators.
- 4) **Accumulated Depreciation Reserve:** Book depreciation for the current year plus all previous years.
- 5) **Net Plant In Service:** The difference between Gross Plant Investment (Column 3) and Accumulated Depreciation Reserve (Column 4).
- 6) **Average Net Plant:** Average of Column 5.
- 7) **Average Accumulated Deferred Income Taxes:** The average of the beginning and the end of the year accumulated deferred income tax. Accumulated deferred income tax (ADIT) consists of two components: accumulated deferred income taxes on depreciation and accumulated deferred income taxes on contribution in aid of construction. At the end of the service life of the plant installed the balance of ADIT will be zero.
- 8) **Average Rate Base:** Total of Average Net Plant (Column 6) plus Average Accumulated Deferred Income Taxes (Column 7).

NEW AREA SURCHARGE RIDER (CONTINUED)

9) **Allowed Return:** Derived from CenterPoint Energy's most recent general rate proceeding:

Equity Ratio	X	Return on Equity	X	(1+Tax Rate)	=	Weighted Cost
Long Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
Short Term Debt Ratio	X	Debt Cost	X		=	Weighted Cost
						Allowed Rate of Return

The Allowed Rate of Return multiplied by the Average Rate Base (Column 8) equals the Allowed Return.

- 10) **Book Depreciation:** The straight line cost recovery of the life of the assets for Gross Plant Investment defined in Column (3). The depreciation factor used is based on a weighted average of depreciation rates used in CenterPoint Energy's most recent general rate proceeding.
- 11) **O & M Expense:** In any year shall be based on average incremental cost per customer. The cost per customer will include provisions for incremental distribution and customer accounting expenses.

The calculation is average customers multiplied by incremental cost per customer.

- 12) **Property Tax:** In any year shall be a factor of the gross plant investment (after contribution-in-aid-of-construction). The factor is based on historical experiences of actual taxes paid as a percentage of gross plant.
- 13) **Total Revenue Requirement:** Total of Allowed Return (Column 9), Book Depreciation (Column 10), O & M Expenses (Column 11), and Property Tax (Column 12).
- 14) **Retail Revenue:** This amount represents the retail revenue generated by multiplying the various retail billing rates (basic charge and delivery charge) approved in the Company's most recent general rate case proceeding by the expected average annual number of customers connected to the project each year.
- 15) **Revenue Excess or (Deficiency):** Revenue excess or deficiency is the difference between the Total Revenue Requirement (Column 13) and the amount of Retail Revenue (Column 14). Excess occurs when the Total Revenue Requirement in a given year is less than the total Retail Revenue generated. Deficiency occurs when the Total Revenue Requirement in a given year is more than the total Retail Revenue generated.

NEW AREA SURCHARGE RIDER (CONTINUED)

16) **Present Value of Cash Flows:** The cash flows that produce either revenue excesses or deficiencies (Column 15) are discounted to a present value using a discount rate equal to the overall rate of return established in the most recent general rate proceeding.

If the sum of the present value calculations over the life of the project is zero, or as close to zero as possible, the model demonstrates that the project is "self supporting". That is, the customer CIAC surcharge is the proper amount of customer contributed capital necessary to support the project at the projected (or actual) level of retail revenues.

SURCHARGE RIDER RATES

A surcharge as designated will be included in the monthly bills of the following Minnesota geographical areas:

Nowthen Project 15 Year New Area Surcharge Expires 2035	
Residential	\$23.05
Commercial A	\$36.39
Commercial / Industrial B	\$50.95
Commercial / Industrial C	\$115.25
SVI A	\$134.66
SVI B	\$1,026
LVI	\$2,183.68
LVF	\$2,183.68