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December 3, 2003

Advice No. 3318
(U 904 G)

Public Utilities Commission of the State of California

Subject: El Paso Settlement Refund Plan, Modification of the Purchased Gas Account, and Establishment of the El Paso Settlement Proceeds Memorandum Account

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) a refund plan for the distribution of the settlement proceeds received from El Paso Natural Gas Company (El Paso) to core subscription customers. In addition, SoCalGas submits changes to its Preliminary Statement to modify the Purchased Gas Account and establish the El Paso Settlement Proceeds Memorandum Account (EPSPMA) to track the settlement proceeds allocable to SoCalGas core procurement and core aggregation customers, respectively.

Purpose

This filing is made in compliance with Decision (D.) 03-10-087 which requires SoCalGas to submit a refund plan for the distribution of core subscription customers' allocation of the El Paso Settlement proceeds and authorizes SoCalGas to revise its Preliminary Statement (Attachment B) to modify its existing Purchased Gas Account (PGA) and establish the EPSPMA to record core procurement and core aggregation customers' allocation of the El Paso Settlement, respectively.

Background

On June 4, 2003, El Paso entered into a settlement agreement with the State of California and other parties impacted by El Paso's involvement in the extremely high natural gas and electricity prices in California and several Western states during the 15-month period from March 1, 2000 through May 31, 2001. Approximately \$1.5 billion in consideration of which \$1.035 billion is subject to the CPUC jurisdiction for distribution among California gas and electric utilities, including the California Department of Water Resources (CDWR). The consideration is comprised of annual payments of 20 years (or 15 years if certain conditions are met), upfront cash payments, reduction of CDWR revenue requirements, and the proceeds from the sale of El Paso stock.

Purchased Gas Account (PGA)

The El Paso settlement proceeds will be recorded as a credit to the PGA; however, the first payment received by SoCalGas will be reduced for the portion allocable to core subscription and core aggregation transportation (CAT) customers, and less any applicable income taxes assessed by governmental taxing authorities. These credits to the PGA will have no impact to SoCalGas' Gas Cost Incentive Mechanism (GCIM).

Refund Plan for Core Subscription Customers

SoCalGas will provide an upfront refund to core subscription customers who were impacted by high natural gas prices during the period March 1, 2000 through May 31, 2001 and who do not continue with core procurement service after core subscription service terminates on December 1, 2003. For those core subscription customers continuing core service, such customers will receive their refund through the PGA.

The allocation of the total settlement proceeds to core subscription customers shall be based on the percentage of gas usage by core subscription customers to the total core and core subscription volumes used during the applicable period. Since the refund is being provided upfront, SoCalGas proposes to use a rate of return of 7.86% as the discount rate and a 20 year period to determine the present value of the settlement proceeds allocable to core subscription customers. For purposes of this calculation, the proceeds related to the sale of El Paso stock are based on the trading price of the stock at the time the Settlement agreement was executed. The amount will be updated based on the actual proceeds related to the sale of El Paso stock. For comparison purposes, the net present value of the refund is calculated based on a 15-year period to test the sensitivity of the estimated refunds under a different payment stream assumption.

A refund rate will be calculated by dividing the net present value of the settlement proceeds allocable to core subscription customers by the total core subscription volumes during the applicable period. This refund rate will be applied to core subscription customer's usage during the period. We propose to provide a refund check to each eligible core subscription customer who does not currently receive core procurement service determined at the time SoCalGas receives its first installment of the settlement proceeds.

On Attachment C, an analysis has been prepared to estimate the upfront refund under a 20-year and 15-year payment stream. The estimate represents the maximum refund for core subscription customers impacted during the applicable period; however, the refund will be lower depending on the number of core subscription customers that actually contract for core procurement service when their core subscription service is terminated. Based on the most recent contractual information available, SoCalGas currently estimates that core subscription customers eligible to receive a refund would receive \$50,413 and \$46,604 under a 15-year and 20-year refund period, respectively. The difference in the refund amounts between payment streams is relatively minor considering the difference impacts 52 customers and translates, on average, to about \$73 per customer. We propose to utilize the 20-year payment stream assumption for issuing refunds to core subscription customers unless additional information becomes available that would indicate that El Paso will utilize some other payment stream. Prior to the date of receipt for the first payment of the settlement proceeds, SoCalGas will finalize the total number of core subscription customers who are eligible for a refund and their applicable refund amounts.

El Paso Settlement Proceeds Memorandum Account (EPSPMA)

SoCalGas will provide an upfront refund to core aggregation customers who were impacted by high natural gas prices during the period March 1, 2000 through May 31, 2001. Since core aggregation customers cannot receive a refund through the PGA, SoCalGas will establish the EPSPMA to record the net present value of settlement proceeds allocable to core aggregation customers. The net present value of the proceeds will be calculated in the same manner as the refund for core subscription customers except for the following differences:

- The allocation of the total settlement proceeds to core aggregation customers shall be based on the percentage of gas transported by core aggregation customers to the total core throughput during the preceding 12-month period prior to the time SoCalGas first receives the settlement proceeds. For illustrative purposes, based on the 12 months preceding August 2003, SoCalGas estimates core aggregation customers eligible for a refund of \$292,760 and \$270,646 under the 15-year and 20-year refund period, respectively. Refer to Attachment C for details.
- The core aggregation customers' share of the proceeds will be recorded in the EPSPMA, and SoCalGas will determine an allocation method for inclusion in core aggregation transportation rates in its next Biennial Cost Allocation Proceeding (BCAP) or annual regulatory account balance update filing.

Protest

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date this Advice Letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

Energy Division - IMC Branch
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Jerry Royer (jjr@cpuc.ca.gov) and to Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Sid Newsom
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E-mail: snewsom@SemptraUtilities.com

Effective Date

SoCalGas respectfully requests that this advice letter be made effective January 12, 2004, which is not less than forty (40) days regular statutory notice.

Notice

In accordance with Section III.G of General Order No. 96-A, a copy of this advice letter is being sent to the parties listed on Attachment A, which includes the parties in Rulemaking 03-07-008.

J. STEVE RAHON
Director
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Attachments

ATTACHMENT A

Advice No. 3318

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3318

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 37156-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 3	Revised 34371-G
Revised 37157-G	PRELIMINARY STATEMENT, PART VI, DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM, Sheet 1	Revised 36866-G
Revised 37158-G	PRELIMINARY STATEMENT, PART VI, DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM, Sheet 20	Original 36868-G
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PRELIMINARY STATEMENT

Sheet 3

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

PURCHASED GAS ACCOUNT (PGA) (Continued)

3. A credit entry equal to the brokerage fee charged to core customers less the allowance for F & U.
4. A debit entry equal to 1/12 of the annual core brokerage fee revenue requirement.
5. A credit entry equal to the El Paso settlement proceeds received pursuant to the Master Settlement Agreement approved by the FERC and CPUC (D.03-10-087). The first payment received will be reduced by the estimated net present value of refunds due to core subscription and core aggregation customers.
6. An entry equal to the interest on the average of the balance in the account during the month, excluding the core-subscription subaccount, calculated in the manner described in Preliminary Statement, Part I, J.

CORE FIXED COST ACCOUNT (CFCA)

The CFCA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the difference between authorized margin, transition, and other non-gas fixed costs allocated to the core market with revenues intended to recover these costs.

On a monthly basis, SoCalGas maintains this account as follows:

SoCalGas debits this account with the core portion of the following costs: gas margin costs, transition costs, and other non-gas operating costs.

SoCalGas credits this account with the core portion of the following revenues: transmission revenues from core deliveries; revenues from the sale of core storage capacity rights; base revenues that would have been collected from customers absent the core pricing flexibility program; and other revenues that the Commission has directed SoCalGas to allocate to the core market. Pursuant to D.03-10-017, revenues also include core's allocation of the capital component of FIG (fiber optic cable in gas pipelines) revenues associated with the use of the gas distribution system until superseded by ratemaking adopted in SoCalGas' 2004 PBR/Cost of Service Proceeding (A.02-12-027).

In addition, SoCalGas adjusts this account to amortize previously accumulated overcollected or undercollected balances to reflect payment to, or recovery from, ratepayers. SoCalGas also adjusts this account to reflect volumetric differences associated with the core amortization recorded in other regulatory accounts.

NONCORE FIXED COST ACCOUNT (NFCA)

The NFCA is an interest-bearing balancing account. The purpose of this account is to balance the difference between noncore costs (authorized margin, transition, and actual non-gas fixed costs) and noncore revenues. Noncore revenues exclude EOR and unbundled storage revenues and revenues

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3318
 DECISION NO. 03-10-087

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Dec 3, 2003
 EFFECTIVE Apr 22, 2004
 RESOLUTION NO. G-3363

PRELIMINARY STATEMENT

Sheet 1

PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

A. GENERAL

Memorandum accounts are special accounts authorized by the Commission for the purpose of tracking certain costs and revenues. Please refer to each individual memorandum account description for the specific accounting treatment applicable to each account.

B. LISTING OF MEMORANDUM ACCOUNTS

- Conservation Expense Account (CEA)
- PCB Expense Account (PCBEA)
- Research Development and Demonstration Expense Account (RDDEA)
- Curtailement Violation Penalty Account (CVPA)
- Economic Practicality Shortfall Memorandum Account (EPSMA)
- Catastrophic Event Memorandum Account (CEMA)
- Interconnect Charge Memorandum Account (ICMA)
- Vernon Avoided Distribution Cost Memorandum Account (VADCMA)
- Noncore Cost/Revenue Memorandum Account (NCRMA)
- Interstate Capacity Step Down Account (ICSDA)
- Vernon Rate Savings Memorandum Account (VRSMA)
- Vernon Negotiated Core Contract Memorandum Account (VNCCMA)
- Earthquake Valve Installation Service Memorandum Account (EVISMA)
- Research Royalty Memorandum Account (RRMA)
- NGV Research Development & Demonstration Memorandum Account (RDDNGV)
- Intervenor Award Memorandum Account (IAMA)
- Z Factor Account (ZFA)
- Tax Interest Account (TIA)
- Energy Efficiency/DSM Memorandum Account (EEDSMMA)
- Applicant Installation Trench Inspection Memorandum Account (AITIMA)
- Wheeler Ridge Firm Access Charge Memorandum Account (WRFACMA)
- Earthquake Valve Installation Memorandum Account (EVIMA)
- Gas Industry Restructuring Memorandum Account (GIRMA)
- Self-Generation Program Memorandum Account (SGPMA)
- Baseline Memorandum Account (BMA)
- Blythe Operational Flow Requirement Memorandum Account (BOFRMA)
- Annual Earnings Assessment Proceeding Memorandum Account (AEAPMA)
- Cost of Service Revenue Requirement Memorandum Account (COSRRMA)
- El Paso Settlement Proceeds Memorandum Account (EPSPMA)

C. DESCRIPTION OF ACCOUNTS

CONSERVATION EXPENSE ACCOUNT (CEA)

The CEA is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to track the difference between authorized costs in rates, and actual demand-side management program costs. This account covers regular and low income demand-side management programs.

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVISE LETTER NO. 3318
 DECISION NO. 03-10-087

ISSUED BY
Lee Schavrien
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(TO BE INSERTED BY CAL. PUC)
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PRELIMINARY STATEMENT

Sheet 21

PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

EL PASO SETTLEMENT PROCEEDS MEMORANDUM ACCOUNT (EPSPMA)

The EPSPMA is an interest bearing memorandum account that is recorded on the Utility's financial statements. The purpose of this account is to track the El Paso Settlement proceeds allocable to core aggregation customers pursuant to CPUC Decision 03-10-087. The EPSPMA will be effective upon receipt of the first settlement proceeds from El Paso Natural Gas Company (El Paso).

Utility shall maintain the EPSPMA by making entries at the end of each month as follows:

- a) A credit entry equal to the net present value of the El Paso Settlement proceeds allocable to core aggregation customers. The allocation of the proceeds shall be based on the percentage of gas transported by core aggregation customers to the total core throughput during the preceding 12-month period prior to the time the Utility first receives the settlement proceeds.
- b) A debit entry equal to the El Paso Settlement proceeds refunded in core aggregation transportation rates.
- c) An entry equal to the interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I, J.

The disposition of the EPSPMA balance shall be determined in SoCalGas' Biennial Cost Allocation Proceeding (BCAP) or its next annual regulatory account balance update filing.

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(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 3318
 DECISION NO. 03-10-087

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ISSUED BY

Lee Schavrien
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(TO BE INSERTED BY CAL. PUC)

DATE FILED Dec 3, 2003
 EFFECTIVE Apr 22, 2004
 RESOLUTION NO. G-3363

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Part VIII Gas Cost Incentive Mechanism (GCIM)	35876-G,35877-G,35878-G,36869-G 36870-G,35881-G
Part IX Hazardous Substances Mechanism (HSM)	26199-G,26200-G,26201-G
Part X Global Settlement	32530-G,32531-G,32532-G,32533-G

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3318
 DECISION NO. 03-10-087

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Dec 3, 2003
 EFFECTIVE Apr 22, 2004
 RESOLUTION NO. G-3363

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Attachment C
Southern California Gas Company
El Paso Settlement
Distribution of Settlement Proceeds (Revised)

Total Forecasted Settlement Proceeds:

	Total Est Settlement		CPUC Jurisdiction	SoCalGas Allocation 3.5%
Cash Payments	900	61%	371	21.9
CDWR	-		425	-
Upfront Cash	352	24%	145	8.6
Sale of Stock	26,395,349	15%	94	5.5
Total (in millions of \$)	\$8.60	100%	1,035	36.0

Core Subscription Allocation (SoCalGas):

March 1, 2000 through May 31, 2001:

Total gas throughput excluding noncore volumes (MDTH)	466,310
Core Subscription Throughput (MDTH) - Estimate	2,467
Core Subscription Allocation of Settlement	0.53%

	7.48%	7.86%
Discount Rate	7.48%	7.86%
Payment Period (YRS)	15	20
Annual Payments (\$)	7,723	5,792
	NPV	NPV
Cash Payments	115,849	68,259
Upfront Cash	45,493	45,493
Sale of Stock	29,095	29,095
Total (\$)	190,437	142,847

Core Aggregation Customers:

Total Gas Throughput, excluding noncore for prior 12 months
CAT Throughput for the prior 12 months (MDTH)
CAT Allocation of Settlement

Total Gas Throughput, excluding noncore for prior 12 months	351,807
CAT Throughput for the prior 12 months (MDTH)	3,814
CAT Allocation of Settlement	1.08%

	7.48%	7.86%
Discount Rate	7.48%	7.86%
Payment Period (YRS)	15	20
Annual Payments (\$)	15,829	11,871
	NPV	NPV
Cash Payments	237,429	139,895
Upfront Cash	93,237	93,237
Sale of Stock	59,628	59,628
Total (\$)	390,295	292,760