J. Steve Rahon
Director
Tariffs & Regulatory Accounts

8330 Century Park Ct.
San Diego, CA 92123-1548
Tel: 858.654.1773
Fax 858.654.1788
srahon@SempraUtilities.com

April 21, 2004

Advice No. 3373
(U 904 G)

Public Utilities Commission of the State of California

Subject: **Request for Service Deviation from Tariff Rule No. 30 Section B.5, Transportation of Customer-Owned Gas, for Air Liquide America L.P. at the Chevron U.S.A. El Segundo Refinery Site**

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) a request for authorization under Tariff Rule No. 30 Section B.5, Transportation of Customer-Owned Gas, in order for Chevron U.S.A. Inc. (Chevron) to resell customer-owned natural gas to Air Liquide America L.P. (Air Liquide) at the Chevron El Segundo refinery site. SoCalGas also hereby submits for approval an amendment to the Gas Transportation Service Agreement dated as of June 10, 1996, between Chevron U.S.A. Inc. and Southern California Gas Company, herein incorporated as Attachment B.

Background

SoCalGas has received a request from Chevron asking SoCalGas to grant Chevron the right to resell to Air Liquide gas delivered by SoCalGas to Chevron's El Segundo refinery and deliver that gas through its internal gas delivery system to a hydrogen production facility to be built, owned and operated by Air Liquide, and located on the Chevron El Segundo refinery property. The Air Liquide hydrogen facility will supply hydrogen to the refinery under a long-term supply contract with Chevron. The production of hydrogen requires the use of natural gas and is critical to the refinery operations as it is a key component in refining crude oil into gasoline and other refined products. One of Chevron's two existing hydrogen production facilities, currently operating under an exemption from applicable South Coast Air Quality Management District (SCAQMD) rules, will be replaced by the cleaner and more efficient Air Liquide facility.

Currently, an internal natural gas pipeline connected to the SoCalGas meter serving the refinery supplies gas to all of the refinery operations. The pipeline runs for approximately

one mile from the SoCalGas meter to the point where it branches off to serve the hydrogen production facility. In order for SoCalGas to directly serve Air Liquide's new facility, a duplicate one mile long pipeline would need to be installed by Chevron from a new SoCalGas meter to the point on the pipeline that branches off to the hydrogen facility.

Chevron would prefer to avoid the expense of constructing a duplicate line (approximately $1.2 million), if possible, and simply meter and bill Air Liquide for the gas it consumes. However, the provisions in SoCalGas Tariff Rule No. 30, Transportation of Customer-Owned Gas, prevent Chevron from reselling and delivering transported gas to a third party without Commission authorization. According to Rule No. 30, Section B.5, "Gas shall be transported hereunder for use only by the customer within the state of California, and not for delivery or resale to a third party unless authorized by the Commisssion". SoCalGas is filing this advice letter on behalf of Chevron requesting the Commission approve a service deviation from Rule No. 30 to allow Chevron to resell and deliver transported gas to Air Liquide. Approval of this filing is specific to this situation and will not affect any other SoCalGas customer.

Information

The following attachments are herein incorporated as part of this filing:

Attachment B - Amendment to Chevron's Gas Transportation Service Agreement
Chevron has agreed to amend its Gas Transportation Service Agreement to add provisions to ensure SoCalGas is not economically disadvantaged by Chevron delivering gas to Air Liquide in comparison with Air Liquide being a direct SoCalGas customer. Sections 3.1.1, Contract Rate and Escalation and 3.3.4, Tariff Rate Option, will be replaced in their entirety with new language that adds provisions for charging Chevron an additional customer charge and paying another full amount of Tier-1 transportation charge as if there were two separate customers. For competitive reasons, this amendment is being supplied to the Commission staff only. SoCalGas requests the amendment remain confidential under the provisions of General Order 66-C and Public Utilities Code Section 583.

Attachment C – Chevron Letter to SoCalGas
This letter from Chevron to SoCalGas explains the reasons for the proposed service deviation and requests SoCalGas to file for authorization under Tariff Rule No. 30. For the reasons set forth in the letter, expeditious action on this advice filing is needed. Chevron has been granted an exemption by the SCAQMD until December 31, 2004 to operate the existing hydrogen plant that will be replaced by the Air Liquide facility. If the Air Liquide facility is not operational by that date, Chevron will either be required to seek an extension of the exemption from the SCAQMD, which is not assured, or possibly be faced with significant curtailment of refinery production. This reduction would have a negative impact on the State's gasoline and jet and diesel fuel supplies as well as on Chevron's finances. In the event this advice filing is denied, Chevron needs adequate time (approximately seven months) to install a new pipeline connecting Air Liquide directly to the SoCalGas system in order to prevent having to reduce refinery production. Accordingly, if the Commission denies this Advice Letter, SoCalGas requests an interim deviation from Rule 30 for as long as necessary for Chevron to construct the new gas pipeline.

Attachment D – Air Liquide Letter to the Commission
This letter from Air Liquide to the Commission acknowledges their understanding of the requirement for and the impact of a deviation from Tariff Rule No. 30. As explained in the letter, the impact from this authorization will be insignificant. Although Air Liquide will be foregoing the CPUC's regulatory protection it would otherwise have if it were a direct transportation customer of SoCalGas, Chevron has assured Air Liquide that it will resell the gas and deliver it to the new hydrogen production facility without imposing any additional costs or mark up. Chevron has no incentive to mark-up the gas since under its hydrogen supply agreement with Air Liquide such a mark-up would correspondingly increase the price of the hydrogen Chevron purchases from the facility.

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
Tariff Manager - GT14D6
555 West Fifth Street
Los Angeles, CA 90013-1011
Facsimile No. (213) 244-4957
E-mail: snewsom@SempraUtilities.com

Effective Date

SoCalGas believes that approval of this advice letter does not require a resolution to be issued by the Commission; however, the Commission may determine that a resolution is warranted in this case.

SoCalGas respectfully requests this advice letter be approved on or after May 31, 2004, which is not less than forty (40) days regular statutory notice, or on such later date the Commission may direct by resolution.

Notice

In accordance with Section III.G of General Order No. 96-A, a copy of this advice letter is being sent to all parties listed on Attachment A to this advice letter.

J. STEVE RAHON
Director
Tariffs and Regulatory Accounts

Attachments

ATTACHMENT A

Advice No. 3373

(See Attached Service List)

ACN
Brian Spector
BSpector@acninc.com

ACN Energy
Gary Morrow
GMorrow@acninc.com

ACN Energy
Tony Cusati
tony.cusati@acnenergy.com

ACN Inc.
Glenn Kinser
gkinser@acninc.com

Aglet Consumer Alliance
James Weil
jweil@aglet.org

Alcantar & Kahl
Elizabeth Westby
egw@a-klaw.com

Alcantar & Kahl
Kari Harteloo
klc@a-klaw.com

AFRPA/DD McClellan Attn: L. Baustian
3411 Olson Street, Room 105
McClellan, CA 95652-1003

BP Amoco, Reg. Affairs
Marianne Jones
501 West Lake Park Blvd.
Houston, TX 77079

BP EnergyCo.
J. M. Zaiontz
Zaiontj@bp.com

Barkovich & Yap
Catherine E. Yap
ceyap@earthlink.net

Berliner, Camdon & Jimison
John Jimison
johnj@bcjlaw.com

Beta Consulting
John Burkholder
burkee@cts.com

CPUC
Consumer Affairs Branch
505 Van Ness Ave., #2003
San Francisco, CA 94102

CPUC
Energy Rate Design & Econ.
505 Van Ness Ave., Rm. 4002
San Francisco, CA 94102

CPUC
R. Mark Pocta
rmp@cpuc.ca.gov

California Energy Market
Lulu Weinzimer
luluw@newsdata.com

Calpine Corp
Avis Clark
aclark@calpine.com

City of Anaheim
Ben Nakayama
Public Utilities Dept.
P. O. Box 3222
Anaheim, CA 92803

City of Azusa
Light & Power Dept.
215 E. Foothill Blvd.
Azusa, CA 91702

City of Banning
Paul Toor
P. O. Box 998
Banning, CA 92220

City of Burbank
Fred Fletcher/Ronald Davis
164 West Magnolia Blvd., Box 631
Burbank, CA 91503-0631

City of Colton
Thomas K. Clarke
650 N. La Cadena Drive
Colton, CA 92324

City of Glendale
Larry Silva
lsilva@ci.glendale.ca.us

City of Lompoc
H. Paul Jones
100 Civic Center Plaza
Lompoc, CA 93438

City of Long Beach, Gas Dept.
Chris Garner
2400 East Spring Street
Long Beach, CA 90806-2385

City of Los Angeles
City Attorney
1700 City Hall East
Los Angeles, CA 90012

City of Pasadena
Manuel A. Robledo
150 S. Los Robles Ave., #200
Pasadena, CA 91101

City of Riverside
Stephen Aronson
saronson@ci.riverside.ca.us

City of Vernon
Kenneth J. DeDario
kdedario@ci.vernon.ca.us

Coral Energy
Walter Cinibulk
wcinibulk@coral-energy.com

County of Los Angeles
Stephen Crouch
1100 N. Eastern Ave., Room 300
Los Angeles, CA 90063

Crossborder Energy
Tom Beach
tomb@crossborderenergy.com

Pat Darish
pdarish@acninc.com

Davis Wright Tremaine, LLP
Christopher Hilen
chrishilen@dwt.com

Davis Wright Tremaine, LLP
Edward W. O'Neill
One Embarcadero Center, #600
San Francisco, CA 94111-3834

Davis, Wright, Tremaine
Judy Pau
judypau@dwt.com

Dept. of General Services
Celia Torres
celia.torres@dgs.ca.gov

Dept. of General Services
Deniese Earley
deniese.earley@dgs.ca.gov

Dan Douglass
douglass@energyattorney.com

Downey, Brand, Seymour & Rohwer
Ann Trowbridge
atrowbridge@dbsr.com

Downey, Brand, Seymour & Rohwer
Dan Carroll
dcarroll@dbsr.com

Downey, Brand, Seymour & Rohwer
Phil Stohr
pstohr@dbsr.com

Duke Energy North America
Melanie Gillette
mlgillette@duke-energy.com

Dynegy
Joseph M. Paul
jmpa@dynegy.com

Enserch Gas Marketing, Inc.
Cathy Hawes
353 Sacramento, St., Suite 400
San Francisco, CA 94111

Gas Purchasing
BC Gas Utility Ltd.
16705 Fraser Highway
Surrey, British Columbia, V3S 2X7

General Services Administration
Facilities Management (9PM-FT)
450 Golden Gate Ave.
San Francisco, CA 94102-3611

Goodin, MacBride, Squeri, Ritchie & Day, LLP
J. H. Patrick
hpatrick@gmssr.com

Goodin, MacBride, Squeri, Ritchie & Day, LLP
James D. Squeri
jsqueri@gmssr.com

Jacqueline Greig
jnm@cpuc.ca.gov

Hanna & Morton
Norman A. Pedersen, Esq.
npedersen@hanmor.com

David Huard
dhuard@manatt.com

Imperial Irrigation District
K. S. Noller
P. O. Box 937
Imperial, CA 92251

JBS Energy
Jeff Nahigian
jeff@jbsenergy.com

Jeffer, Mangels, Butler & Marmaro
2 Embarcaero Center, 5th Floor
San Francisco, CA 94111

Kern River Gas Transmission Company
Janie Nielsen
Janie.Nielsen@KernRiverGas.com

LADWP
Nevenka Ubavich
nubavi@ladwp.com

LADWP
Randy Howard
P. O. Box 51111, Rm. 956
Los Angeles, CA 90051-0100

Law Office of Andrew J. Skaff
Andrew Skaff
andy@skafflaw.com

Law Offices of Diane I. Fellman
Diane Fellman
difellman@fellmanlaw.com

Law Offices of William H. Booth
William Booth
wbooth@booth-law.com

Luce, Forward, Hamilton & Scripps
John Leslie
jleslie@luce.com

MRW & Associates
Robert Weisenmiller
mrw@mrwassoc.com

Matthew Brady & Associates
Matthew Brady
matt@bradylawus.com

National Utility Service, Inc.
Jim Boyle
One Maynard Drive, P. O. Box 712
Park Ridge, NJ 07656-0712

PG&E
Anita Smith
aws4@pge.com

PG&E
Sharon Tatai
skt2@pge.com

PG&E
Todd Novak
tsn2@pge.com

PG&E
Sue Shaw
sxs9@pge.com

PG&E National Energy Group
Eric Eisenman
eric.eisenman@neg.pge.com

Pacific Gas & Electric Co.
John Clarke
jpc2@pge.com

Praxair Inc
Rick Noger
rick_noger@praxair.com

Questar Southern Trails
Lenard Wright
Lenard.Wright@Questar.com

Regulatory & Cogen Services, Inc.
Donald W. Schoenbeck
900 Washington Street, #780
Vancouver, WA 98660

Richard Hairston & Co.
Richard Hairston
hairstonco@aol.com

William Scott
wms@cpuc.ca.gov

Southern California Edison Co
Fileroom Supervisor
2244 Walnut Grove Ave., Room 290, GO1
Rosemead, CA 91770

Southern California Edison Co
Karyn Gansecki
601 Van Ness Ave., #2040
San Francisco, CA 94102

Southern California Edison Co.
Colin E. Cushnie
cushnice@sce.com

Southern California Edison Co.
Kevin Cini
cinikr@sce.com

Southern California Edison Co.
John Quinlan
john.quinlan@sce.com

Southwest Gas Corp.
Edward Zub
P. O. Box 98510
Las Vegas, NV 89193-8510

Suburban Water System
Bob Kelly
1211 E. Center Court Drive
Covina, CA 91724

Sutherland, Asbill & Brennan
Keith McCrea
kmccrea@sablaw.com

TURN
Marcel Hawiger
marcel@turn.org

TURN
Mike Florio
mflorio@turn.org

Transwestern Pipeline Co.
Kelly Allen
kelly.allen@enron.com

Vandenberg AFB
Ken Padilla
ken.padilla@vandenberg.af.mil

ATTACHMENT B

Advice No. 3373

**AMENDMENT TO GAS TRANSPORTATION SERVICE AGREEMENT
BETWEEN CHEVRON U.S.A. INC. AND
SOUTHERN CALIFORNIA GAS COMPANY**

**CONFIDENTIAL
INCLUDED WITH COMMISSION STAFF COPIES ONLY**

ATTACHMENT C

Advice No. 3373

CHEVRON LETTER TO SOCALGAS

Chevron Products Company
El Segundo Refinery
324 W. El Segundo Blvd.
El Segundo, CA 90245
Tel (310) 615-5360
Fax (310) 615-3406

Gary G. Yesavage
Refinery General Manager

March 22, 2004

J. Steve Rahon
Director, Tariff & Regulatory Accounts
Southern California Gas Company
8330 Century Park Ct.
San Diego, CA 92123

Re: Request for approval under Tariff Rule No. 30 Section B.5 to resell customer-owned gas to tenant industrial facility

Dear Mr. Rahon,

Chevron U.S.A. Inc., through its division Chevron Products Company ("Chevron"), owns and operates a very large oil refinery in El Segundo, California. Chevron requests that Southern California Gas Company ("SoCalGas"), pursuant to Tariff Rule 30, Section B.5, obtain authorization from the California Public Utilities Commission ("CPUC") for Chevron to resell customer-owned gas transported to the refinery by SoCalGas to a hydrogen production facility that will be a refinery tenant and will sell its output to the refinery. The reasons for this request are summarized in this letter and described in more detail in the enclosed Fact Paper.

Hydrogen is a key component required for the refining of crude oil into gasoline and other refined products. The refinery's hydrogen requirements are currently met by two hydrogen production facilities. However, due to South Coast Air Quality Management District ("SCAQMD") air emissions requirements, the refinery will be closing down one of these two facilities and replacing it with a much cleaner and more efficient steam methane reformer ("SMR"). Chevron has entered into a long term hydrogen supply contract with Air Liquide America L.P. Under this contract Air Liquide will build, own and operate the SMR facility on refinery premises, and sell its output to the refinery. The SCAQMD Hearing Board has granted Chevron an exemption allowing it to operate the older plant only until December 31, 2004. Therefore, the new Air Liquide facility must be operational by that date.

The Air Liquide SMR facility requires natural gas for feedstock and on a limited basis for fuel for start up and back-up operations. Chevron has a long term gas transportation contract with SoCalGas pursuant to which SoCalGas transports Chevron-owned gas to the refinery. The refinery then distributes the gas to various end-uses within the refinery through an internal, Chevron-owned gas distribution system. The new SMR facility's gas requirements can easily be delivered through this internal delivery system.

Chevron and SoCalGas have together examined several options for meeting the SMR facility's gas requirements. The preferred solution is the following: Chevron will acquire for its own account sufficient gas to meet both the refinery's and the SMR facility's gas requirements. SoCalGas would transport this quantity of gas to the refinery under the existing Chevron-SoCalGas transportation

contract, and then Chevron would resell the SMR facility's requirements to Air Liquide downstream of SoCalGas' meter and deliver it to the SMR facility over the Chevron internal gas delivery system. Chevron would also agree to modifications to the gas transportation contract that would hold SoCalGas economically neutral as compared to Air Liquide being a stand-alone SoCalGas transportation customer. The only other viable alternative identified would require Chevron to construct a new, redundant $1.2 million gas pipeline from the SMR facility that would interconnect directly with the SoCalGas system near the utility's meter at the refinery, which would allow Air Liquide direct access to the gas market, with its supply shipped to the interconnection point under a separate contract with SoCalGas.

Chevron understands that the preferred arrangement described above requires authorization from the CPUC under Tariff Rule 30, Section B.5. Chevron hereby requests that SoCalGas obtain the necessary CPUC authorization that will allow Chevron to resell its customer-owned gas transported by SoCalGas to Air Liquide solely for use at the new SMR facility on the refinery's premises. Chevron, of course, will provide all reasonable support and assistance.

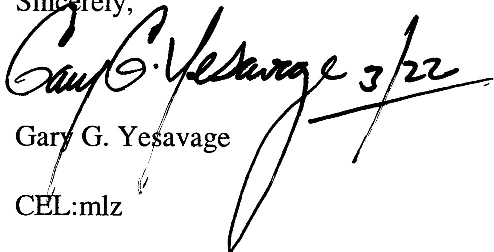
Chevron would expect that its existing transportation arrangements with SoCalGas wll be reinstated in the unlikely event that the Air Liquide facility is inoperable for an extended period of time, shuts down, or if Chevron were to acquire the facility.

Air Liquide will be providing a separate letter to SoCalGas stating that it fully understands the regulatory impacts of and agrees to receive its gas requirements under the requested arrangements.

Enclosed is a Fact Paper that provides factual support and rationale for this request.

Thank you for your courtesy and cooperation.

Sincerely,



Gary G. Yesavage

CEL:mlz

Enclosure

cc: D.A. Oglesby
B. Brinkman, Air Liquide

Gas Supply to Air Liquide Facility
El Segundo Refinery

Chevron U.S.A. Inc., through its division Chevron Products Company, owns and operates the El Segundo refinery, a 260,000 barrel per day facility located in El Segundo, California. Hydrogen is a key component necessary to refine crude oil into gasoline and other refined products. Hydrogen serves two major purposes in the refinery: (1) it reacts with contaminants to remove the impurities from the intermediate and finished products, and (2) it reacts with heavy hydrocarbons, breaking them apart to make light, finished products. Eighty percent of the crude oil input to the refinery must be converted to a lighter product, a conversion process for which hydrogen is absolutely critical. Sixteen of the 27 major processing units in the refinery utilize hydrogen as a feedstock. Applicable regulations prohibit the refinery from making any refined product without hydrogen.

Currently the refinery's hydrogen requirements are met by two hydrogen production facilities, a steam naptha reformer ("SNR") and a steam methane reformer ("SMR"). Both hydrogen production plants are subject to South Coast Air Quality Management District ("SCAQMD") Rule 1189 limiting emissions of volatile organic compounds from the hydrogen plants' process vents. The SNR has achieved compliance with Rule 1189, but Chevron has determined that rather than retrofitting the old, inefficient SMR unit to comply with Rule 1189, it will shut that plant down and replace it with a modern SMR plant. The SCAQMD Hearing Board has granted Chevron an exemption from Rule 1189 allowing it to operate the SMR without retrofit until December 31, 2004. To replace the capacity lost from the shutdown of the old SMR and to expand the refinery's capability to refine cleaner burning fuels, Chevron has entered into a long term hydrogen supply contract with Air Liquide America L.P. Under this contract Air Liquide will build, own and operate a hydrogen production facility on refinery premises under a ground lease from Chevron and will supply hydrogen to the refinery. The new Air Liquide hydrogen plant will supply up to 40% of the refinery's current hydrogen demand. Estimated completion date for the facility is the fourth quarter of 2004, leaving little time before the Hearing Board's exemption expires. Therefore, if this new hydrogen facility is not operational by December 31, 2004, Chevron will be required to seek an extension of the exemption, granting of which is not assured, or face the prospect of having to significantly reduce refinery production.

To put the refinery's size and importance to California's economy in context, the refinery occupies over 1000 acres in the City of El Segundo and is safely and efficiently operated and maintained by approximately 1000 Chevron employees and 200 contract workers. The refinery is one of the two largest of the State's fourteen refineries, comprising 13% of the California's crude oil refining capacity. Its processing units allow it to produce gasoline, jet and diesel fuels from crude oils produced throughout the world. The refinery supplies over 10% of the State's gasoline demand and over 50% of the jet fuel used at the adjacent Los Angeles International Airport. The El Segundo refinery, like

nearly every other major refinery in California, is normally operated at full capacity in order to meet the critical demand for specially formulated fuels required by California law. Any reduction in production at the margin from a curtailment in refinery operations will likely be quickly felt by consumers, who will see their gasoline prices spike.

The Air Liquide facility requires natural gas for feedstock and on a limited basis for fuel for start up and back-up operations in order to produce the hydrogen for delivery to Chevron. The refinery has a ten year full requirements gas transportation contract with Southern California Gas Company ("SoCalGas") that began in June 1996. The refinery's demand on SoCalGas varies, but consumption of gas delivered from SoCalGas is approximately 85,000 MMBtu/d for refinery related usage. This includes natural gas used in Chevron's existing owned and operated hydrogen production facility that will be closed when the Air Liquide facility goes on line.

Air Liquide's new hydrogen production facility will be located near the southeastern boundary of the El Segundo refinery and can receive gas supply from a connection at the end of the refinery's existing internal gas delivery system. If Chevron and SoCalGas, with appropriate CPUC approval, cannot arrive at a solution for gas service to the new hydrogen production facility that will allow Air Liquide's gas requirements to be delivered through the refinery's internal gas delivery system, Chevron and Air Liquide will need to construct a new pipeline connecting the hydrogen plant directly to the SoCalGas system. This new pipeline, which would be redundant to the refinery's existing internal system, would be connected to SoCalGas' delivery system at or near the refinery's existing connection with the SoCalGas system at the refinery's northern boundary, and will then cross over or under eight separate roads in the refinery before reaching the hydrogen plant, a distance of one mile. Total cost is estimated at $1.2 million. Engineering, construction and commissioning of this new pipeline will require at least seven months. Additionally, construction of this pipeline will involve safety hazards customarily associated with any major construction project. Since natural gas will be required for the new hydrogen facility's start-up in fall 2004, if the alternative described below that allows delivery of Air Liquide's requirements over the refinery's internal delivery system is not approved quickly, Chevron will have to begin engineering the much more costly new pipeline in the next few weeks.

SoCalGas, Air Liquide and Chevron have been in discussions for over a year attempting to work out a way to deliver gas to the Air Liquide facility over the refinery's internal delivery system. There are four criteria for an acceptable arrangement: it must (i) be consistent with SoCalGas Gas Rules and Tariffs, (ii) ensure strict compliance with U.S. Department of Transportation regulations and safety and environmental standards, (iii) keep SoCalGas economically indifferent as compared with the Air Liquide facility's being a direct SoCalGas transportation customer, and (iv) avoid the very significant additional cost of constructing a new, redundant gas delivery line inside the refinery to the Air Liquide hydrogen facility.

Air Liquide and Chevron propose to meet Air Liquide's gas requirements as follows: Chevron will purchase from third parties its and Air Liquide's gas requirements and ship

the aggregate quantity on the SoCalGas system under Chevron's existing transportation contract with SoCalGas to the SoCalGas meter at the El Segundo refinery. Chevron would then distribute the gas to its various uses within the refinery on its existing internal delivery system, including to the connection point with the Air Liquide hydrogen facility. At that point Chevron will resell the hydrogen plant's requirements to Air Liquide, the amount being metered at a pipeline quality revenue meter located at or very close to the interconnection point of the refinery's system with the Air Liquide facility. Chevron will work with SoCalGas to file an advice letter to obtain CPUC approval for this resale under Gas Rule 30 B.5. Chevron will also work with SoCalGas to obtain any necessary revisions (and CPUC approval if required) to the Chevron-SoCalGas transportation contract to ensure that SoCalGas is kept "whole" in the sense that SoCalGas' revenues are equal to what they would be if the Air Liquide facility were a direct gas transportation customer of SoCalGas. Chevron will not mark up the gas it sells to Air Liquide, and will make no profit whatsoever on this transaction. Air Liquide understands this arrangement and agrees that it is the optimal solution for obtaining its gas supply.

Chevron would expect that its existing arrangements with SoCalGas would be reinstated in the unlikely event that the Air Liquide facility is inoperable for an extended period of time, shuts down, or if Chevron were to acquire the facility.

In summary Chevron will purchase the gas that will ultimately be used at the Air Liquide hydrogen facility, which will be transported under the Chevron/SoCalGas transportation contract to the SoCalGas/El Segundo Meter. Chevron will then deliver the hydrogen plant's requirements on its internal delivery system to the refinery's interconnection with that facility, where the gas will be resold to Air Liquide. SoCalGas will be kept whole under this arrangement. The alternative is for Chevron to spend approximately $1.2 million dollars to design, construct, install and operate a duplicate, unnecessary gas fuel line within the El Segundo refinery, and alternative that simply makes no sense given that SoCalGas will be economically indifferent in any event.

March 29, 2004

ATTACHMENT D

Advice No. 3373

AIR LIQUIDE LETTER TO SOCALGAS

Richard A. Deal
Vice President
Hydrogen, Syngas & On-Sites

March 16, 2004

J. Steve Rahon
Director
Tariff and Regulatory Accounts
Southern California Gas Company
8330 Century Park Ct.
San Diego, CA 9213-1548

Re: Request for approval under Tariff Rule No. 30 Section B.5 to resell customer-owned gas to tenant Air Liquide hydrogen production facility

Dear Mr. Rahon:

The purpose of this letter is to express Air Liquide America L.P.'s understanding of, and support for, the request of Chevron U.S.A. Inc., through its division Chevron Products Company ("Chevron"), for Southern California Gas Company ("SoCalGas") to obtain authorization from the California Public Utilities Commission ("CPUC") for Chevron to resell to Air Liquide Chevron-owned gas transported to the El Segundo refinery by SoCalGas for use by an Air Liquide hydrogen production facility located on refinery premises and selling its output to the refinery.

Pursuant to a contract with Chevron, Air Liquide will build, own and operate a steam methane reformer ("SMR") on the premises of Chevron's El Segundo refinery. The hydrogen produced at this SMR facility will be sold to the refinery for use in its refining operations. The Air Liquide SMR facility requires natural gas for feedstock and on a limited basis for fuel for start up and back-up operations. We understand that Chevron and SoCalGas have been in discussions to identify a least cost solution under which the SMR facility would obtain its gas requirements. We have been informed that the preferred solution is as follows: Chevron will acquire for its own account sufficient gas to meet both the refinery's and the SMR facility's gas requirements. SoCalGas would transport this quantity of gas to the refinery under the existing Chevron-SoCalGas transportation contract, and then Chevron would resell the SMR facility's requirements to Air Liquide downstream of SoCalGas' meter and deliver it to the SMR facility over the Chevron internal gas delivery system. Chevron would also agree to modifications to the gas transportation contract that would hold SoCalGas economically neutral as compared to Air Liquide being a stand-alone SoCalGas transportation customer.

We further understand that the only other viable alternative identified would require construction of a new, redundant $1.2 million gas pipeline from the SMR facility that would interconnect directly with the SoCalGas system near the utility's meter at the refinery, which would allow Air Liquide direct access to the gas market, with its supply

shipped to the interconnection point under a separate contract with SoCalGas ("new pipeline alternative"). Air Liquide understands that under the new pipeline alternative, it would have the responsibility for arranging for the acquisition of its own gas supply on the market, and for transportation of the gas from SoCalGas. These transportation arrangements would be subject to CPUC jurisdiction, and Air Liquide's transportation contract with SoCalGas would be governed by CPUC approved rules, tariffs, and rates.

Air Liquide understands that Chevron desires to avoid the $1.2 million cost of the new pipeline, as well as the increased safety hazards associated with new construction and doing a "hot tap" interconnection with the SoCalGas system. The preferred solution would avoid this cost since no new facilities would have to be built. However, the preferred solution will also result in Air Liquide's losing CPUC regulatory protection since Air Liquide would be an unregulated customer of Chevron with no CPUC jurisdiction over either Air Liquide's transportation costs or gas commodity costs. Nevertheless, Air Liquide believes that its arrangements with Chevron will provide adequate protection, and therefore knowingly agrees to the preferred solution and to relinquishing direct CPUC regulatory jurisdiction over its gas supply and transportation.

As to gas transportation costs, Air Liquide understands that under the preferred alternative the costs attributable to transporting the SMR facility's requirements will be the same as the costs Air Liquide would incur were it to be a direct transportation customer of SoCalGas, and that the CPUC is being asked to approve appropriate modifications to the SoCalGas transportation contract to ensure that this is the case. As to commodity costs, Chevron has assured Air Liquide that Chevron will not mark up the gas it is reselling to Air Liquide, and will not make a profit on the resale. Indeed, Chevron has no incentive to mark up the gas commodity price since under Air Liquide's supply contract with Chevron such a mark up would correspondingly increase the price of the hydrogen produced by the SMR facility and purchased by Chevron.

Accordingly, Air Liquide is fully informed of the regulatory consequences of the preferred solution and willingly agrees to it because Air Liquide will not be at risk of being prejudiced by the loss of direct CPUC jurisdiction over any of its gas transportation or commodity costs.

Sincerely,

Richard A. Deal
Vice President
Hydrogen, Syngas, and On-Sites