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January 12, 2005

Advice Letter 3443

RECEIVED
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TARIFF ADM.

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Subject: Expedited Advice Letter for El Paso Capacity Contracts – Decision 04-09-022

Dear Mr. Newsom:

Advice Letter 3443 is effective January 12, 2005. A copy of the advice letter is sent herewith for your records.

Sincerely,

Paul Clanon

Director
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December 22, 2004

Advice No. 3443
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Public Utilities Commission of the State of California

Subject: **Expedited Advice Letter for El Paso Capacity Contracts – Decision 04-09-022**

Pursuant to the expedited advice letter filing and approval procedures adopted in D.04-09-022, Southern California Gas Company (SoCalGas) hereby requests approval by the California Public Utilities Commission (Commission) of a Precedent Agreement for new Transportation Service Agreements (New TSAs) with El Paso Natural Gas Company (El Paso) for transportation of natural gas supplies on behalf of SoCalGas' core procurement customers. This expedited advice letter requests Commission approval by January 12, 2005, consistent with the timeframe adopted for this process (see D.04-09-022, pp. 18, 26).

Purpose

In D.04-09-022, the Commission found that a clearly articulated process was needed for the expeditious processing and appropriate regulatory oversight of interstate pipeline capacity contracts entered into by utilities on behalf of core customers. The Commission approved procedures for capacity contract approval that rely on consultation among the utilities and the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), and the Energy Division for all commitments for interstate capacity.

Under the expedited capacity advice letter procedure approved in D.04-09-022, renegotiated contracts for capacity held by SoCalGas under existing TSAs expiring in 2005 and 2006 with Transwestern Pipeline Company and with El Paso may be submitted by expedited advice letter, seeking Commission approval within 21 days of the date the expedited advice letter is filed. The purpose of this expedited advice letter is to request approval of a Precedent Agreement dated December 21, 2004 for New TSAs between El Paso and SoCalGas for renegotiated capacity contracts for transportation service on the expiration of SoCalGas' TSA No. 97VT on August 31, 2006.

Background

The Commission recognized in D.04-09-022 that the upcoming expiration of SoCalGas' contracts with El Paso and Transwestern would provide the opportunity to acquire capacity commitments with mixed terms and staggered termination dates, giving SoCalGas more flexibility in trying to reduce the delivered cost of gas to its core procurement customers (see e.g., D.04-09-022, p. 19). Thus, the Commission authorized SoCalGas to re-negotiate or terminate expiring contracts with El Paso and Transwestern to achieve these expected benefits. SoCalGas realizes these objectives under the Precedent Agreement for New TSAs with El Paso, as discussed in more detail below. The New TSAs have mixed terms and staggered termination dates and provide core customers with increased firm access to lower-cost gas supplies in the San Juan Basin and alternate rights to gas supplies in the Permian Basin.

In compliance with D.04-09-022, SoCalGas has throughout this process also consulted extensively with representatives of ORA, TURN, and the Energy Division concerning the Precedent Agreement for the New TSAs.[1/] SoCalGas is authorized to represent here that ORA and TURN recommend approval by the Commission of the Precedent Agreement for New TSAs.

SoCalGas currently holds 1,150 MMcf/d of firm capacity rights on the El Paso system under TSA No. 97VT, which expires on August 31, 2006. Of this capacity, 744 MMcf/d is allocated to SoCalGas' core customers and its costs are recovered through the core fixed cost account. The balance of 406 MMcf/d is paid for by SoCalGas' noncore customers through the Interstate Transportation Capacity Surcharge, and the costs of this capacity are partially offset by revenues from capacity releases. An additional 18 MMcf/d of El Paso capacity acquired on behalf of SoCalGas' core procurement customers in 2001 is held under TSA Nos. 9MME, 9MMF and 9MMG, which also expire on August 31, 2006. The costs of this capacity are recovered through the Purchased Gas Account.

In 2002, SoCalGas acquired an additional 139 MMcf/d of turn-back El Paso capacity pursuant to D.02-07-037.[2/] This capacity is held under fourteen TSAs expiring on seven dates between December 31, 2004 and March 31, 2007. Cost responsibility for this turn-back capacity is allocated between core and noncore customers on an equal-cents-per-therm basis pursuant to D.04-01-027.

As a result of decisions in the El Paso Capacity Allocation proceeding before the Federal Energy Regulatory Commission (FERC), specific monthly receipt point rights were assigned for all firm capacity on the El Paso system effective September 1, 2003.[3/] SoCalGas' total El Paso capacity of 1,307,391 Mcf/d was assigned annual average

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1/ The Precedent Agreement is being submitted to Commission Staff pursuant to the confidentiality provisions of Public Utilities Code §583 and General Order 66-C, and to TURN pursuant to the confidentiality provisions of a non-disclosure agreement.

2/ The Commission recognized in D.04-09-022 that the turn-back capacity contracts would be allowed to expire under the procedures and authority granted in that decision (D.04-09-022, p. 20).

3/ El Paso Natural Gas Co., 99 FERC ¶ 61,244 (2002); *Order on Clarification*, 100 FERC ¶ 61,285 (2002); *Order on Rehearing*, 104 FERC ¶ 61,044 (2004).

receipt point rights of 512,898 Mcf/d in the Permian Basin and 794,493 Mcf/d in the San Juan Basin. El Paso capacity allocated to SoCalGas' core customers was assigned annual average receipt point rights of 278,126 Mcf/d in the Permian Basin and 483,584 Mcf/d in the San Juan Basin. El Paso's total annual average San Juan Basin receipt point rights are approximately 2.8 Bcf/d. As stated in SoCalGas' Phase I proposals that were adopted in D.04-09-022, uneconomic price spreads between the California border and the Permian Basin currently result in a monthly utilization rate ranging from 39% to 67% on a primary flow basis for the SoCalGas core capacity with assigned Permian Basin receipt point rights.[4/] Therefore, in the Precedent Agreement for New TSAs, SoCalGas has focused on contracting for more capacity from the San Juan Basin.

Summary of New Capacity Contracts

Under the Precedent Agreement for New TSAs, beginning September 1, 2006, SoCalGas' core procurement customers will hold El Paso system capacity in several New TSAs divided among three-, four-, and five-year terms, and between El Paso's Topock and Ehrenberg delivery points interconnecting with the SoCalGas system at the California-Arizona border. All costs of El Paso capacity held by SoCalGas under the Precedent Agreement for New TSAs will be recovered from core procurement customers through the Purchased Gas Account.

The Precedent Agreement for New TSAs provides two alternatives under which SoCalGas will hold either: (A) an annual average in the first three years of approximately 750 MMcf/d of capacity, all of which is assigned San Juan Basin receipt point rights; or (B) an annual average in the first three years of approximately 754 MMcf/d of capacity, of which 699 MMcf/d is assigned San Juan Basin receipt point rights and 55 MMcf/d is assigned Permian Basin receipt point rights. The first, and preferred, Alternative A includes 60 MMcf/d of receipt point capacity from the San Juan basin that El Paso expects to be able to provide in the future. However, in the event that for some unanticipated reason that capacity is not available for inclusion in Alternative A, then Alternative B will go into effect.

Of the 750 MMcf/d of capacity in the first three years of the New TSAs under Alternative A, the annual average of capacity with a primary delivery point at Topock is 318 MMcf/d and at Ehrenberg is 432 MMcf/d. In Attachment B to this expedited advice letter, a summary has been prepared reflecting the terms, quantities, and receipt and delivery points of the New TSAs under the two alternatives stated in the Precedent Agreement.

When the three-year term TSAs terminate, SoCalGas will hold an annual average of 540 MMcf/d of capacity. When the four-year term TSAs terminate, the annual average is 320 MMcf/d. This assumes that no right of first refusal (ROFR) rights are exercised.

The rates for the capacity under the Precedent Agreement are 100% load factor rates[5/]

4/ See Proposals of SDG&E and SoCalGas filed February 24, 2004, at pp. 24-25.

5/ A 100% load factor rate is a rate that is inclusive of both: (1) the pipeline's monthly reservation rate, expressed on a daily basis; and (2) the pipeline's applicable usage rate under its FERC Gas Tariff.

equal to the lesser of: (1) El Paso's effective maximum applicable California reservation and usage rates, or (2):

- 27.5 cents/Dth (San Juan to Topock)
- 32.0 cents/Dth (San Juan to Ehrenberg)
- 16.0 cents/Dth (Permian to Ehrenberg)

Effective January 1, 2005, El Paso's maximum applicable 100% load factor California rate for San Juan Basin receipts is 32.977 cents/Dth and for Permian Basin receipts is 34.807 cents/Dth. Under the Precedent Agreement, SoCalGas' average 100% load factor rate is approximately 30.09 cents/Dth assuming the 100% San Juan Basin receipt point rights under Alternative A and 28.93 cents/Dth assuming 55 MMcf/d Permian Basin receipt point rights under Alternative B. Fuel will be charged in accordance with the provisions of El Paso's FERC Gas Tariff, which provides for a fuel rate of 3.27% effective January 1, 2005.

Pursuant to El Paso's Tariff Section 28, El Paso will post the total of the quantities, terms, and receipt and delivery points of the capacity of the new TSAs (the Transaction) described in the Precedent Agreement for competitive bids. Any such bid will compete with the total of the revenues to be received by El Paso from SoCalGas from the Transaction. For purposes of competitive bid evaluation, a third party must place a bid on the entire quantity in all of the postings in order to be a qualifying competitive bid. The bid evaluation will be 100% weight to highest rate.

To provide for this competitive bidding opportunity, on or before February 28, 2005 SoCalGas will give notice to El Paso of the termination of TSA No. 97VT effective August 31, 2006, and of SoCalGas' intent not to exercise its ROFR for the capacity held under TSA No. 97VT. Also, SoCalGas' remaining contracts comprised of 18 MMcf/d of El Paso capacity, acquired on behalf of SoCalGas' core procurement customers in 2001 and the 139 MMcf/d of turn-back capacity held under fourteen separate TSAs will expire on seven dates between December 31, 2004 and March 31, 2007 in compliance with D. 04-09-022.

Under the Precedent Agreement, a ROFR will apply to each New TSA, with the exception of the New TSA that provides for Permian to Ehrenberg capacity for the seven-month period from September 1, 2006 through March 31, 2007. In addition, under Section 2.3.4 under the Precedent Agreement, there may be another alternative that would achieve the equivalent result. However, in any event, SoCalGas will consult with ORA, TURN, and Energy Division and get the consent of Energy Division, ORA, and TURN prior to entering into a written agreement with El Paso to go forward with any changes to the alternatives described above.

Effective Date

SoCalGas requests that this filing be approved and made effective on January 12, 2005, which is 21 days from the date of this filing.

This advice letter will not affect any other rate or charge, conflict with any rate schedules or rules, nor cause the withdrawal of any service.

Protest

Anyone may protest this expedited advice letter by sending a letter to the Commission by January 3, 2005, which is 10 days from the date of this filing. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. 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
Facsimile: (415) 703-2200

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.

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Notice

In accordance with Section III.G of General Order No. 96-A, a copy of this advice letter is being sent electronically or via U.S. mail to parties shown on Attachment A, which includes interested parties in R.04-01-025.

J. STEVE RAHON
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Attachments

ATTACHMENT A

Advice No. 3443

(See Attached Service Lists)

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ATTACHMENT B

Southern California Gas Company Expedited Advice Letter Request for Approval of New TSAs with El Paso Natural Gas Company

Alternative A Exhibit: New TSAs (Mcf/d)
Final Contract Summary 4/1/2007

Agmt Code	Start Date	End Date	Receipt	Delivery	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	MMBtu 100% LF Discount Rate of (1)	Term (Years)
1	09/01/2006	08/31/2011	BLANCO	DSCALEHR	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	$ 0.320	5
	09/01/2006	08/31/2010	BLANCO	DSCALTOP	96,017	95,151	94,309	89,371	85,040	80,092	79,696	79,906	84,773	85,192	89,528	91,636	$ 0.275	4
2	09/01/2006	08/31/2010	BONDAD	DSCALTOP	37,217	37,407	37,838	39,132	40,190	41,381	41,480	41,424	40,244	44,705	43,356	42,545	$ 0.275	4
	09/01/2006	08/31/2010	BONDADST	DSCALTOP	111,766	112,442	112,853	116,497	119,770	123,527	123,824	123,670	119,983	115,103	112,116	110,819	$ 0.275	4
4	09/01/2006	08/31/2009	BLANCO	DSCALEHR	103,214	103,163	102,453	79,580	79,009	78,402	78,349	78,392	79,003	79,839	102,790	103,589	$ 0.320	3
	09/01/2006	08/31/2009	BONDADST	DSCALEHR	21,786	21,838	22,547	23,420	23,991	24,598	24,652	24,609	23,997	23,162	22,211	21,412	$ 0.320	3
5	09/01/2006	08/31/2009	BLANCO	DSCALTOP	85,000	85,000	85,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	85,000	85,000	$ 0.275	3
			Total Contract Portfolio Demand:		**775,000**	**775,000**	**775,000**	**733,000**	**733,000**	**733,000**	**733,000**	**733,000**	**733,000**	**733,000**	**775,000**	**775,000**		

Alternative B Exhibit: New TSAs (Mcf/d)
Final Contract Summary 4/1/2007

Agmt Code	Start Date	End Date	Receipt	Delivery	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	MMBtu 100% LF Discount Rate (1)	Term (Years)
1	09/01/2006	08/31/2011	BLANCO	DSCALEHR	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	320,000	$ 0.320	5
	09/01/2006	08/31/2010	BLANCO	DSCALTOP	96,017	95,151	94,309	89,371	85,040	80,092	79,696	79,906	84,773	85,192	89,528	91,636	$ 0.275	4
2	09/01/2006	08/31/2010	BONDAD	DSCALTOP	37,217	37,407	37,838	39,132	40,190	41,381	41,480	41,424	40,244	44,705	43,356	42,545	$ 0.275	4
	09/01/2006	08/31/2010	BONDADST	DSCALTOP	111,766	112,442	112,853	116,497	119,770	123,527	123,824	123,670	119,983	115,103	112,116	110,819	$ 0.275	4
4	09/01/2006	08/31/2009	BLANCO	DSCALEHR	28,214	28,163	27,454	44,580	44,009	43,402	43,349	43,392	44,003	44,839	27,790	28,589	$ 0.320	3
	09/01/2006	08/31/2009	BONDADST	DSCALEHR	21,786	21,838	22,547	23,420	23,991	24,598	24,652	24,609	23,997	23,161	22,211	21,412	$ 0.320	3
5	09/01/2006	08/31/2009	BLANCO	DSCALTOP	85,000	85,000	85,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000	85,000	85,000	$ 0.275	3
6	09/01/2006	08/31/2009	KEYSTONE	DSCALEHR	75,000	75,000	75,000	35,000	35,000	35,000	35,000	35,000	35,000	75,000	75,000	75,000	$ 0.160	3
			Total Contract Portfolio Demand:		**775,000**	**775,000**	**775,000**	**733,000**	**733,000**	**733,000**	**733,000**	**733,000**	**733,000**	**773,000**	**775,000**	**775,000**		

(1) Shipper shall pay a 100% load factor rate during the term of this Agreement equal to the lesser of: (i) the effective maximum applicable California reservation and usage rates,; or (ii) a discount rate stated above. The 100% load factor rate is inclusive of all reservation and usage charges and El Paso-specific surcharges, e.g., such as an El Paso Pipeline Integrity Program surcharge, but excluding fuel and those FERC surcharges assessed on multiple interstate pipelines, e.g., ACA.