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A Sempra Energy® utility

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September 12, 2005

Advice No. 3529
(U 904 G)

Public Utilities Commission of the State of California

Subject: Change in Assignment of Core Interstate Pipeline Capacity to Energy Service Providers and Core Transportation Customers

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) revisions to SoCalGas' tariff schedules, applicable throughout its service territory, as shown on Attachment B.

Purpose

The purpose of this filing is to propose tariff changes related to a change in assignment of core interstate pipeline capacity to Energy Service Providers (ESPs) and core transportation customers resulting from recovery of interstate pipeline capacity reservation costs in the Purchased Gas Account (PGA) under new transportation service agreements (TSAs) negotiated pursuant to Decision (D.) 04-09-022 in Order Instituting Rulemaking (R.) 04-01-025.

Background

R.04-01-025 was opened to ensure that California does not face a natural gas shortage in the future and directed the California utilities to file proposals addressing interstate pipeline capacity contracts, liquefied natural gas access and interstate pipeline access. D.04-09-022, was issued, in part, to address the Phase I proposal of SoCalGas, filed in compliance with R.04-01-025, on new interstate pipeline capacity contract procedures that allowed the utility to acquire core capacity in a more efficient and cost effective manner. In Ordering Paragraph (OP) 2 of D.04-09-022, the Commission approved the capacity contract approval procedures (Contracting Procedures) proposed by SoCalGas subject to the modifications described in D.04-09-022. SoCalGas' Phase I proposal on pages 26 and 27 stated:

> "As the contract terms of SoCalGas' primary TSAs with Transwestern and El Paso expire in 2005 and 2006, all core procurement interstate pipeline costs will be recovered only from core procurement customers through the procurement charge and Purchased Gas Account (PGA), similar to the current procedure for interstate capacity used to serve core procurement customers

> that was not allocated in the BCAP. Core aggregators would independently acquire pipeline capacity as they deem necessary to serve their customers, and would not be obligated to pay for the costs of interstate capacity held by the utility on behalf of core procurement customers."

Pursuant to D.04-09-022, the Commission approved two Expedited Advice Letters (EAL) [1], requesting cost recovery approval in the PGA of new Transportation Service Agreements (TSAs) with El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern) which take effect upon the expirations of existing long-term contracts with these interstate pipelines. In addition, the Director of the Energy Division approved new interstate transportation contracts with Kern River Pipeline Company. Interstate pipeline capacity negotiated for pursuant to D.04-09-022 Contracting Procedures is intended for and paid by core procurement customers only. These costs are no longer in core transportation rates.

Currently, expiring long-term interstate pipeline contract costs are recovered in transportation rates from core procurement customers, core transportation customers, and Energy Service Providers (ESPs). Since the ESPs are paying a portion of the transportation costs they have been assigned a portion of the contracted capacity pursuant to D.95-07-048. Specifically, D.95-07-048 Ordering Paragraph 5 states:

> "The settlement filed in this proceeding on March 28, 1994, is adopted as set forth herein. PG&E, SoCalGas, and SDG&E shall file tariffs in compliance with the settlement no later than 30 days from the effective date of this decision. Portions of the settlement will be superseded, as set forth herein, when interstate capacity costs are unbundled from core class rates. The utilities shall modify their tariffs accordingly"

Therefore, consistent with D.95-07-048 and with the D.04-09-022 approval of the Phase I proposal Contracting Procedures, in which SoCalGas stated that all costs of capacity held by SoCalGas under the new TSAs would be recovered from core procurement customers through the Purchased Gas Account (PGA), SoCalGas is proposing changes to its Rule No. 32, Core Aggregation Transportation, and Rule No. 36, Interstate Capacity Release, to clarify that the assignment of interstate pipeline capacity to ESPs and core transportation customers includes only capacity that is included in transportation rates and as a result does not include capacity contracted for under the new TSAs.

<u>Tariff Changes</u>

<u>Changes to Rule No. 32, Core Aggregation Transportation</u>

Section D.1, Assignment of Interstate Pipeline Capacity, of Rule No. 32 is being revised to clarify that interstate capacity assignments to ESPs are only for the interstate pipelines on which SoCalGas holds firm interstate rights for its core customers to the extent that associated capacity costs are allocated in core customers' transportation rates. Since this

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[1] On December 22, 2004 and February 2, 2005, SoCalGas submitted EAL 3443 and 3462, requesting approval of renegotiated Transportation Service Agreements with El Paso Natural Gas Company (El Paso) and Transwestern Pipeline Company (Transwestern), respectively. The terms of the new contracts begin on September 1, 2006 and November 1, 2005, coincident with the respective expiration of existing long-term contracts with the pipelines. EAL 3443 was approved January 12, 2005 and EAL 3462 was approved February 23, 2005.

change also results in the definition of Daily Contract Quantity (DCQ) in Section D.1. of Rule No. 32 no longer being the same as the assigned interstate pipeline capacity, a separate definition of DCQ is being added to Section A, General, of Rule No. 32.

Changes to Rule No. 36, Interstate Capacity Release

Rule No. 36 Section B., Assignment of Capacity for Core Aggregation Transportation Service, and Section C., Assignment of Capacity for Other Core Transportation Service, are being revised to clarify that interstate capacity assignments to ESPs and core transportation customers are only for the interstate pipelines on which SoCalGas holds firm interstate rights for its core customers to the extent that associated capacity costs are allocated in core customers' transportation rates.

Changes to Rule No. 1, Definitions

The definition of DCQ in Rule No. 1 is being revised to delete the statement that the DCQ represents the maximum amount of capacity to be reserved for allocation to Aggregators and core transportation customers as this will no longer apply due to the change in the assignment of interstate pipeline capacity to ESPs.

This filing will not create any deviations from SoCalGas' tariffs, cause withdrawal of service from any present customer, or impose any more or less restrictive conditions.

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and therefore respectfully requests that this filing become effective on November 1, 2005 which is more than 30 calendar days after the date filed.

Protests

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 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:

CPUC Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
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 Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest shall 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

A copy of this advice letter is being sent to the parties listed on Attachment A to this advice letter, which includes interested parties in R.04-01-025.

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ATTACHMENT A

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ATTACHMENT B
Advice No. 3529

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 39584-G	Rule No. 01, DEFINITIONS, Sheet 3	Revised 37967-G
Revised 39585-G	Rule No. 32, CORE AGGREGATION TRANSPORTATION, Sheet 8	Revised 30025-G
Revised 39586-G	Rule No. 32, CORE AGGREGATION TRANSPORTATION, Sheet 9	Revised 30026-G
Revised 39587-G	Rule No. 32, CORE AGGREGATION TRANSPORTATION, Sheet 17	Revised 30034-G
Revised 39588-G	Rule No. 32, CORE AGGREGATION TRANSPORTATION, Sheet 19	Revised 30036-G
Revised 39589-G	Rule No. 32, CORE AGGREGATION TRANSPORTATION, Sheet 20	Original 30037-G
Revised 39590-G	Rule No. 36, INTERSTATE CAPACITY RELEASE, Sheet 1	Revised 36351-G
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Revised 39594-G	TABLE OF CONTENTS	Revised 39577-G

DEFINITIONS

(Continued)

Company's Operating Convenience: Use, under certain circumstances, of facilities or practices not ordinarily employed which contribute to the overall efficiency of the Utility's operations; term does not refer to customer convenience nor to the use of facilities or adoption of practices required to comply with applicable laws, ordinances, rules, regulations, or similar requirements of public authorities.

Conservation Meter: Meter to identify conservation applications to calibrate process equipment; to account for fuel and energy invested in a process, a production run, or the like. Not to be used for billing purposes.

Consumer Price Index (CPI): Index as published in the Bureau of Labor Statistics, "Los Angeles--Long Beach--Anaheim Metropolitan Area Consumer Price Indexes".

Contract Quantity, Annual: Annual natural gas quantity contracted for delivery during each contract year. Quantity is based on the customer's historical usage or negotiated on the basis of the customer's operational forecast.

Contract Quantity, Daily (DCQ): Annual average natural gas quantity contracted for delivery, stated on a daily basis. The DCQ is based on historical consumption or forecasted consumption and is set forth in the applicable service agreement. For a Marketer's or Aggregator's end-users, this quantity is the basis for establishing credit with the Utility. The DCQ calculation for Aggregators participating in the Core Aggregation Transportation Program is defined in Rule No. 32. D

Contract Quantity, Monthly: Monthly natural gas quantity contracted for delivery during each contract month as set forth in the customer's applicable service agreement. Quantity is based on the customer's historical usage or negotiated on the basis of the customer's operational forecast.

Contracted Marketer: Contracted Marketers are individuals, companies or consortiums that arrange for natural gas procurement-related activities on behalf of noncore customers. Contracted Marketers must enter into a contract with SoCalGas and meet certain credit requirements. They must comply with Rules 30 and 35 and all other tariffs which address the transportation and management of customer-owned gas.

Core Service: Service to end-use Priority 1 or Priority 2A as set forth in Rule No. 23.

Core Subscription Service: Utility natural gas procurement service available to noncore customers. Core subscription service is subject to special conditions as identified in the customer's applicable rate schedule. Core subscription service has been discontinued pursuant to Decision 01-12-018 effective December 1, 2003.

Core Transportation Aggregator (CTA): See Energy Service Provider (ESP).

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(Continued)

A. GENERAL (Continued)

6. Taxes

The Aggregator shall pay the applicable Utility User's Tax, and any other fees and taxes applicable within the city or political subdivision where the gas is actually used unless otherwise provided for in a specific ordinance or other legislative ruling. For those customers located in Los Angeles county, pursuant to Los Angeles City Ordinance No. 168164, dated August 4, 1992, SoCalGas shall collect the user tax for all gas delivered through the gas system for transportation service customers and consumed in Los Angeles County.

7. Applicable Contract Provisions

All contracts and customer authorizations of ESPs under this Rule shall be subject to Rule No. 4, except as set forth below. DASRs and Customer Authorizations (Form 6568-A) shall be deemed to be "contracts for gas service between ESP and Core Transportation Service Customer" for purposes of applying Rule No. 4 to this Rule:

a. Damages

SoCalGas shall not be assessed any special, punitive, consequential, incidental, or indirect damages, whether in contract or tort, for any actions or inactions arising from or related to the Program.

b. CPUC Jurisdiction

The contracts and authorizations pertaining to Transportation Only Service under this Rule, shall at all times be subject to such changes or modifications by the CPUC as said Commission may, from time to time, direct in the exercise of its jurisdiction.

8. Contract Quantities N

SoCalGas will assign a Daily Contracted Quantity (DCQ) on a monthly basis.

The DCQ will be calculated using the following formula:

DCQ = A / B x C

Where: "A" = ESP group's most recent twelve months historical consumption,

"B" = Most recent twelve months deliveries on SoCalGas' system for the customer class, and

"C" = Utilities Authorized Core Cold Year Throughput N

(Continued)

B. ESTABLISHMENT OF CREDIT L

1. Credit Application |

The ESP shall be required to complete a credit application that includes any financial information needed to establish credit on an annual basis or whenever the ESP's load increases by 25,000 therms per day or more. A non-refundable credit application processing fee of $500 may be charged to offset the cost of determining the ESP's creditworthiness. SoCalGas will establish the ESP's credit limit based on the creditworthiness evaluation and the ESP's Daily Contract Quantity (DCQ). L,D

To assure the continued validity of an established unsecured credit limit, the ESP shall be required to furnish SoCalGas with financial information satisfactory to SoCalGas, as requested by SoCalGas, during ESP's participation in the Program. In the event SoCalGas determines that a financial change has or could adversely affect the creditworthiness of the ESP, or if the ESP does not provide the requested financial information, SoCalGas may terminate the ESP's participation in the Program immediately.

A creditworthiness evaluation will be conducted by an outside credit analysis agency, to be determined by SoCalGas, with final credit approval granted by SoCalGas. Credit reports will remain strictly confidential between the credit analysis agency and SoCalGas.

2. Security Deposit

a. Acceptable Forms of Security Deposits

ESPs may submit a security deposit in lieu of the creditworthiness evaluation to qualify for participation and/or to increase their DCQ. The security deposit may be in the form of:

(1) Cash Deposit - Deposits will earn interest at the interest rate on Commercial Paper (prime, three-month), as described in Preliminary Statement, Part I, Section J.

(2) Letters of Credit - Irrevocable and renewable standby Letters of Credit issued by a major U.S. financial institution acceptable to SoCalGas.

(3) Surety Bonds - Renewable surety bonds in a form acceptable to SoCalGas which are issued by a major insurance company acceptable to SoCalGas.

(4) Guarantees - Guarantors must furnish financial information as requested by SoCalGas and have credit standards acceptable to SoCalGas. Guarantees must be accompanied by other forms of security deposit equal to at least 20% of the credit requested. "Other" forms of security deposit include those items outlined above and any other form and/or amount of collateral to which SoCalGas, in its sole discretion, agrees in writing.

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D. INTERSTATE PIPELINE CAPACITY FOR PROCUREMENT AND TRANSPORTATION SERVICES

1. Initial Assignment of Interstate Pipeline Capacity

Firm interstate pipeline costs will be assigned to ESPs at the average cost of interstate transportation reservation charges included in transportation rates incurred by SoCalGas to serve its core customers. N
Such allocation will be based on the ESP's annual forecasted throughput or actual historical usage, consistent with SoCalGas-adopted practices.

SoCalGas' interstate pipeline capacity will be allocated on a prorated basis in a manner consistent with the allocation of interstate pipeline capacity costs included in SoCalGas' transportation rates to D,N
the classes of customers represented by the ESP. This allocation will be updated on an annual basis D
at a minimum.

The assigned interstate pipeline capacity will be calculated using the following formula:

Assigned Capacity = A / B x C D,N

Where: "A" = ESP group's most recent twelve months historical consumption,

"B" = Most recent twelve months deliveries on SoCalGas' system for the customer class, and

"C" = Core capacity reservation with costs allocated in transportation rates N

Interstate capacity assignment to ESPs will be split pro rata between only the interstate pipelines on N
which SoCalGas holds firm interstate rights for its core customers to the extent that associated D,N
capacity costs are included in core customers' transportation rates. D,N

2. Nominations and Deliveries

ESPs participating in the Program will perform capacity nominations and gas deliveries pursuant to the provisions and conditions set forth in Rule No. 30.

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E. BILLING FOR INTERSTATE PIPELINE CAPACITY (Continued)

1. Interstate Pipeline Charges (Continued)

Each month, after receiving confirmation from the interstate pipeline that the ESP has made full payment for its assigned capacity, SoCalGas will reimburse the ESP for the entire dollar amount that the ESP has properly paid to the interstate pipeline for its assigned interstate pipeline demand charges offset by Procurement Management Charges the ESP owes to SoCalGas, if any, less any reservation refunds credited to the ESP by the pipeline by wire transfer. The ESP will be financially liable for any Procurement Management Charges.

Any pipeline interconnect charges will be billed to ESPs as agents of their customers and are in addition to the transmission charges. Customers will remain liable for the cost of additional services that they contract for from SoCalGas (i.e., equipment financing, etc.) in addition to the bundled transmission charges.

2. Interstate Pipeline Refunds

Because both Core Transportation Service Customers and Procurement Customers will be
contributing equally to any under- or over-collections for capacity included in core customer N
transportation rates, differences between the actual costs and the allocated costs will be booked to the N
Core Fixed Cost Account for standard balancing account treatment. Any refunds provided by the
interstate pipelines for capacity included in core customer transportation rates to firm-core shippers N
will be credited to SoCalGas and be added to the Core Fixed Cost Account for future refund on the
same schedule and manner as refunds are made to SoCalGas' Procurement Customers as approved by
the CPUC. Any refunds provided by the interstate pipelines for capacity which is not included in N
core customer transportation rates to firm core shippers will be credited to the PGA. N

F. OPERATIONAL FLOW ORDER

At any time, SoCalGas may implement an Operational Flow Order (OFO) to assure that firm interstate nominations and deliveries at the border by ESPs are equivalent in reliability to those made by SoCalGas. When an OFO is implemented, ESPs will be required to nominate their full DCQ as firm deliveries to SoCalGas' system. The OFO procedure, in conjunction with the storage rules set forth in this Rule, will supplement current core curtailment policy when the standby portfolio, or balancing service, is curtailed. Over-nominations for the OFO period will not be subject to imbalance penalties for that monthly period. Similarly, injections for that period resulting from the OFO will not count against the ESP's storage cycle limitations if such injections are authorized by SoCalGas. The ESP will be authorized to trade any such quantities to other parties on SoCalGas system during the subsequent imbalance trading period. Failure by the ESP to deliver the minimum quantities of gas as defined in the following formula through the capacity assignments it has received from SoCalGas to its system when an OFO is implemented by SoCalGas will result in an OFO Non-Compliance Penalty (OFO Penalty). This OFO Penalty will be calculated as follows:

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F. OPERATIONAL FLOW ORDER (Continued)

OFO Penalty = Σ [DCQ x PPF - (ECD + STORE)] x $X/th

Where: "PPF" is defined as the Procurement Performance Factor and equals the projected ratio of core procurement deliveries over core procurement firm capacity reservations. The projected ratio will be included in SoCalGas' Operating Plan;

"ECD" is defined as confirmed deliveries for the interstate pipeline capacity which has been assigned to the ESP by SoCalGas;

"STORE" equals the gas withdrawn from storage pursuant to unbundled firm storage withdrawal rights; and,

"$X/th" equals a curtailment violation charge pursuant to Rule No. 23, Section K.

The OFO Penalty will be assessed over the entire OFO period and not on a daily basis and will be calculated on the basis of the first tier of the then-existing curtailment penalty charge as defined in Rule No. 23. The OFO Penalty will be allocated in a manner consistent with the then-existing authorized allocation of curtailment penalty charges.

G. STORAGE RIGHTS AND OBLIGATIONS

1. Allocation of Storage Rights

Storage rights and costs will be allocated to each ESP by SoCalGas in the same proportion as storage costs are allocated to the customer classes represented by each ESP in SoCalGas' core transportation D,N
rates.

2. Storage Cycle

ESPs will be allowed one annual cycle for injection, inventory, and withdrawal of gas in storage for core reliability. The injection season is April 1 to October 31. The withdrawal season is November 1 to March 31.

(Continued)

Rule No. 36 Sheet 1

INTERSTATE CAPACITY RELEASE

The terms and conditions of this rule shall apply to the Utility's releasing of its firm interstate transportation rights (capacity) on interstate pipelines.

A. Releasing Capacity

1. Whenever capacity not required to serve the Utility's core load becomes available, Utility may release this unused capacity to any party who meets the creditworthiness requirements of the applicable interstate pipeline. Contracting with parties for released capacity will occur pursuant to the capacity release rules of the Federal Energy Regulatory Commission (FERC). In accordance with those rules, Utility may release capacity through prearranged deals with customers or an open season.

2. Information about Utility's capacity release through an open season will be posted on Utility's EBB.

3. Utility will establish and post criteria for each capacity release, including price, contract term, and, if applicable, recall rights, via the interstate pipeline's electronic bulletin board (EBB). The criteria will be used in determining the winning bids for interstate pipeline capacity, in accordance with the FERC's rules for capacity release.

4. Utility shall, in its sole discretion, determine the minimum acceptable bid price for any capacity it offers. The Utility shall not be obligated to accept any capacity bids, which are less than the full as-billed rate.

5. Once awarded, all billing and payments by the acquiring shipper for the released capacity will be conducted directly between the acquiring shipper and the interstate pipeline, subject to such pipeline's tariffs. Interstate pipelines may also require contracts with the acquiring shippers for capacity. Nominations for transporting gas using this capacity will occur directly between the acquiring shipper and the interstate pipeline.

B. Assignment of Capacity for Core Aggregation Transportation Service

From the total interstate capacity reserved by the Utility for its core market and included in core transportation rates, capacity shall be reserved and subsequently assigned to qualified core aggregators via prearranged capacity releases at the full as-billed rate pursuant to the provisions of SoCalGas' Tariff Rule No. 32. Core aggregators may also participate in the Utility's releasing program pursuant to this rule for any capacity, in addition to their assigned amount under Rule No. 32. N

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Rule No. 36 Sheet 2

INTERSTATE CAPACITY RELEASE

(Continued)

C. Assignment of Capacity for Other Core Transportation Service

From the total interstate capacity reserved by the Utility for its core market and included in core transportation rates, capacity shall be reserved and subsequently assigned to core transportation customers via prearranged releases at the full as-billed rate. Such capacity shall be reserved and assigned for such customers in accordance with Rule No. 32. N N,D

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RULES

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RULES (continued)

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The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

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PRELIMINARY STATEMENT

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