

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691



March 18, 2004

Advice Letter 2511-G

Ms Anita Smith, Rate Analyst
Pacific Gas and Electric Company
77 Beale Street, 10B Mail Code
San Francisco, CA 94177

Subject: El Paso Settlement – Revision to Purchased Gas Account

Dear Ms Smith:

Advice Letter 2511-G is effective February 23, 2004. A copy of the advice letter is sent herewith for your records.

Sincerely,

A handwritten signature in cursive script that reads "Paul Clamor".

Director
Energy Division



**Pacific Gas and
Electric Company**

Karen A. Tomcala
Vice President
Regulatory Relations

77 Beale Street, Room 1065
San Francisco, CA 94105

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Mail Code B10A
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January 14, 2004

Advice 2511-G

(Pacific Gas and Electric Company ID U 39 G)

Subject: El Paso Settlement (Revision to Purchased Gas Account)

Public Utilities Commission of the State of California

Pacific Gas and Electric Company (PG&E) hereby submits filing revisions to its gas tariffs. The affected tariff sheets are listed on the enclosed Attachment I.¹

Purpose

This filing complies in part with Ordering Paragraph (OP) 3 of Decision (D.) 03-10-087, issued October 30, 2003, in Rulemaking (R.) 03-07-008. In accordance with D. 03-10-087, PG&E submits a revised gas Preliminary Statement Part D—Purchased Gas Account (PGA), to record the core procurement customers' proportional share of the consideration received by PG&E from the El Paso Natural Gas Company (El Paso) Settlement. Advice 2502-G, Advice 2503-G, and Advice 2504-G have already been filed in compliance with OP 3.

Background

As a result of numerous investigations, complaints and litigation regarding El Paso's alleged contribution to the extremely high natural gas and electric prices in California during the 2000-2001 California energy crisis, El Paso has agreed to provide to all Settlement parties an estimated \$1.5 billion (nominal value) in consideration for resolving related litigation. Approximately \$1 billion of the consideration affects the rates of customers under the jurisdiction of the CPUC.

¹ PG&E reserves all legal rights to challenge the decisions or statutes under which it has been required to make this advice filing, and nothing in this advice filing constitutes a waiver of such rights. Also, PG&E reserves any additional legal rights to challenge the requirements to make this advice filing by reason of its status as a debtor under Chapter 11 of the Bankruptcy Code, and nothing in this advice filing constitutes a waiver of such rights.



The CPUC instituted R. 03-07-008 to consider proposals for accounting and ratemaking mechanisms to equitably distribute the proceeds from the Settlement to entities under their jurisdiction. This advice letter addresses the core procurement customer share of the consideration for PG&E's core gas customers.

The consideration received by PG&E includes upfront cash (including proceeds from the sale of El Paso stock) upon finalization of the Settlement Agreement² and ongoing fixed semiannual cash payments for 20 years,³ beginning July 1, 2004. PG&E's estimated portion of the gas consideration to be received over the period is approximately \$80 million.⁴ However, this amount is subject to change based upon the final amount of proceeds received from sale of El Paso stock⁵ and any additional eligible parties⁶ ultimately included in the Settlement Agreement. The Settlement will become effective upon approval of the Federal Energy Regulatory Commission (FERC), the San Diego Superior Court, and the United States Bankruptcy Court.

Tariff Revisions

Pursuant to CPUC D. 03-10-087, PG&E is adding a component to Preliminary Statement Part D—Purchased Gas Account (PGA), to record the proportional share of the Settlement consideration attributable to core procurement customers. The amount credited to the PGA will be the upfront cash and the subsequent payments by El Paso for PG&E's core gas customers. The upfront cash amount recorded to this subaccount is net of the net present value of the amount allocated to core aggregation, core subscription and wholesale customers, as filed in Advice 2502-G, Advice 2503-G, and Advice 2504-G, respectively.

² The El Paso Settlement Agreement is expected to be finalized between February 2004 and August of 2004.

³ The 20-year period may be shortened to 15 years if EL Paso Corporation achieves Investment Grade, and certain other conditions are met.

⁴ The settlement proceeds do not reflect tax considerations because the proceeds are not expected to be taxed. In the event the proceeds are taxed, PG&E is entitled to propose:

- (a) adjustment of the consideration such that only the net revenues are credited to ratepayers,
- (b) allowing cost recovery of any tax liability in the next appropriate ratemaking proceeding, or
- (c) authority to create a memorandum account to track adverse tax implications until addressed in a ratemaking proceeding. PG&E expects no adverse tax effect from the El Paso consideration.

⁵ The El Paso Settlement Agreement authorized a specific number of stock shares to sell. The ultimate amount of proceeds received from the sale of stock will depend on the market value of the stock at time of sale.

⁶ Primarily municipalities.

**Protests**

Anyone wishing to protest this filing may do so by sending a letter by **February 3, 2004**, which is 20 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. Protests should be mailed to:

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

Facsimile: (415) 703-2200
E-mail: jjr@cpuc.ca.gov

Protests also should be sent by e-mail and facsimile to Mr. Jerry Royer, Energy Division, as shown above, and by U.S. mail to Mr. Royer at the above address.

The protest should be sent via both e-mail and facsimile to PG&E on the same date it is mailed or delivered to the Commission at the address shown below.

Pacific Gas and Electric Company
Attention: Brian Cherry
Director, Regulatory Relations
77 Beale Street, Mail Code B10C
P.O. Box 770000
San Francisco, California 94177

Facsimile: (415) 973-7226
E-mail: RxDd@pge.com

Effective Date

PG&E requests that this advice filing become effective on regular notice, **February 23, 2004**, which is 40 days after the date of filing.



Notice

In accordance with General Order 96-A, Section III, Paragraph G, a copy of this advice letter is being sent electronically and via U.S. mail to parties shown on the attached list and the parties on the service list for R. 03-07-008. Address changes should be directed to Sandra Ciach at (415) 973-75729. Advice letter filings can also be accessed electronically at:

http://www.pge.com/customer_services/business/tariffs/

A handwritten signature in black ink that reads "Karen A. Tomcala" followed by a stylized flourish.

Vice President - Regulatory Relations

Attachments

cc: Service List – R. 03-07-008

**ATTACHMENT I
ADVICE 2512-G**

<u>Cal. P.U.C. Sheet No.</u>	<u>Title of Sheet</u>	<u>Canceling Cal P.U.C. Sheet No.</u>
22123-G	Preliminary Statement Part D—Purchased Gas Account	20445-G
22124-G	Table of Contents – Preliminary Statements	22091-G
22125-G	Table of Contents	22093-G



PRELIMINARY STATEMENT
(Continued)

D. PURCHASED GAS ACCOUNT (PGA) (Cont'd.)

6. ACCOUNTING PROCEDURE: (Cont'd.)

PG&E shall maintain the PGA by making entries to the subaccounts as follows:

a. Core Subaccount

The following entries will be made to this subaccount each month:

- 1) A debit entry equal to the core portion of the recorded gas costs in the Gas Supply Portfolio during the month. The "core portion" is defined as the total cost of flowing supply during the month, (a) less the cost of gas injected into storage, (b) plus the cost of gas withdrawn from storage, (c) less the cost of gas sold to customers with negative imbalances under Schedule G-BAL during the Schedule G-BAL Transition Period;
- 2) A debit entry equal to the core procurement portion of Canadian capacity costs;
- 3) A debit entry equal to the involuntary diversion usage charges incurred by the core;
- 4) A debit entry equal to the carrying costs on cycled gas in storage;
- 5) An annual debit or credit entry equal to the core portion of the cost or benefit resulting from the CPIM;
- 6) A credit entry equal to the Procurement Charge revenues from the sale of gas to core procurement customers delivered during the month, excluding the allowance for Franchise Fees and Uncollectible Accounts Expense (F&U);
- 7) A credit entry equal to the core procurement portion of the consideration received by PG&E for core gas customers from the el Paso Natural Gas Company (El Paso) Settlement approved by the FERC. Pursuant to CPUC Decision 03-10-087, the amount credited to this subaccount will be the upfront cash and the subsequent payments by El Paso for PG&E's core gas customers. The upfront cash amount recorded to this subaccount is net of the net present value of the amount allocated to core aggregation, wholesale, and core subscription customers, as approved by the CPUC; and (N)
- 8) An entry equal to the interest on the average of the balance in the subaccount at the beginning of the month and the balance in the subaccount after entries from D.6.a.1 through D.6.a.7, above, at a rate equal to one-twelfth the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor. (T)

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**PGE Gas Advice Filing
List
General Order 96-A, Section III(G)**

ABAG Power Pool
Accent Energy
Aglet Consumer Alliance
Agnews Developmental Center
Ahmed, Ali
Alcantar & Elsesser
Applied Power Technologies
Arter & Hadden LLP
Avista Corp
Barkovich & Yap, Inc.
BART
Blue Ridge Gas
BP Energy Company
Braun & Associates
C & H Sugar Co.
CA Bldg Industry Association
CA Cotton Ginners & Growers Assoc.
CA League of Food Processors
CA Water Service Group
California Energy Commission
California Farm Bureau Federation
California Gas Acquisition Svcs
California ISO
Calpine
Calpine Corp
Calpine Gilroy Cogen
Cambridge Energy Research Assoc
Cameron McKenna
Cardinal Cogen
Chevron USA Production Co.
Childress, David A.
City of Glendale
City of Palo Alto
City of Redding
CLECA Law Office
Constellation New Energy
CPUC
Creative Technology
Cross Border Inc
Crossborder Inc
CSC Energy Services
Davis, Wright Tremaine LLP
Davis, Wright, Tremaine, LLP
Defense Fuel Support Center
Department of the Army
Department of Water & Power City
DGS Natural Gas Services
DMM Customer Services
Downey, Brand, Seymour & Rohwer
Duke Energy
Duke Energy North America
Duncan, Virgil E.
Dutcher, John
Dynergy Inc.
Ellison Schneider
Energy Law Group LLP
Enron Energy Services
Exelon Energy Ohio, Inc
Exeter Associates
Foster Farms
Foster, Wheeler, Martinez
Franciscan Mobilehome
Future Resources Associates, Inc
G. A. Krause & Assoc
GLJ Energy Publications
Goodin, MacBride, Squeri, Schlotz &
Grueneich Resource Advocates
Hanna & Morton
Heeg, Peggy A.
Hogan Manufacturing, Inc
House, Lon
Integrated Utility Consulting Group
International Power Technology
Interstate Gas Services, Inc.
J. R. Wood, Inc
JTM, Inc
Kaiser Cement Corp
Korea Elec Power Corp
Luce, Forward, Hamilton & Scripps
Marcus, David
Masonite Corporation
Matthew V. Brady & Associates
Maynor, Donald H.
McKenzie & Assoc
McKenzie & Associates
Meek, Daniel W.
Meyer, Joseph
Mirant California, LLC
Modesto Irrigation Dist
Morrison & Foerster
Morse Richard Weisenmiller & Assoc.
Navigant Consulting
New United Motor Mfg, Inc
Norris & Wong Associates
Northern California Power Agency
Office of Energy Assessments
Palo Alto Muni Utilities
PG&E National Energy Group
Pinnacle CNG Company
PITCO
Plurimi, Inc.
PPL EnergyPlus, LLC
Price, Roy
Product Development Dept
Provost Pritchard
R. M. Hairston & Company
R. W. Beck & Associates
Recon Research
Regional Cogeneration Service
RMC Lonestar
Sacramento Municipal Utility District
SCD Energy Solutions
Seattle City Light
Sempra Energy
Sempra Energy
Sequoia Union HS Dist
SESCO
Sierra Pacific Power Company
Silicon Valley Power
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Smurfit Stone Container Corp
Southern California Edison
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Wellhead Electric Company
Western Hub Properties, LLC
White & Case
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