APPENDIX I

INTERIM SETTLEMENT ENHANCING AND ENABLING COMPETITIVE MARKETS ON THE SOCALGAS SYSTEM

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA

Investigation on the Commission's Own Motion to	**)**	
Consider the Costs and Benefits of Various Promising	**)**	**I.99-07-003**
Revisions to the Regulatory and Market Structure	**)**	
Governing California's Natural Gas Industry and to	**)**	
Report to the California Legislature on the	**)**	
Commission's Findings	**)**	
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Interim Settlement Enhancing and Enabling Competitive Markets on the SoCalGas System

December 27, 1999

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Interim Settlement Enhancing and Enabling Competitive Markets on the SoCalGas System

Introduction

In accordance with Rule 51, et seq., of the Commission's Rules of Practice and Procedure, and consistent with the express request of the Commission in Ordering Paragraphs 2 and 3 of D.99-07-015 that the parties to the above-captioned proceeding attempt to settle issues regarding the structure of the natural gas market in California, this Settlement is entered into and supported by the following parties, listed in alphabetical order:

Burlington Resources; California Industrial Group; California Manufacturers Association; Chevron Corporation; City of Burbank, California; City of Glendale, California; City of Pasadena, California; Coral Energy Resources, L.P.; Dynegy; Imperial Irrigation District; Los Angeles Department of Water and Power; Occidental Energy Marketing Incorporated; Reliant Energy Power Generation, Inc.; San Diego Gas and Electric Company; Southern California Gas Company; Southern California Generation Coalition; Southern California Utility Power Pool; Southern Energy California; Southwest Gas Company; and Williams Energy Services.

The purpose of this Settlement is to make improvements in the market structure on the gas transmission and storage system owned by Southern California Gas Company

(“SoCalGas”) in order to enhance competitive markets. This settlement resolves for a period through December 31, 2002, a number of issues raised in this proceeding, I.99-07-003, and its predecessor proceeding, R.98-01-011, and provides for collaborative discussions to address further changes, including those that could be implemented on or after January 1, 2003. This Settlement applies only to the rates and service of SoCalGas.

Summary of Settlement

This Settlement eliminates SoCalGas’ current “windowing” process, which limits the flexibility of shippers on its system to change their nominations for gas deliveries between various receipt points on SoCalGas’ system. This Settlement establishes Hector Road as a formal receipt point on SoCalGas’ system for which nominations may be made. It also provides a mechanism that will trigger additional investment by SoCalGas to increase its capacity to receive gas at the Wheeler Ridge receipt point if specified criteria are met. This Settlement also provides a forum for further changes in Operational Flow Order (“OFO”) procedures during the term of this Settlement if their frequency exceeds a stated threshold.

This Settlement provides for the establishment of “pools” of transportation gas on the SoCalGas system which is intended to increase the liquidity of trading of gas supplies in southern California and to provide other benefits to gas consumers and marketers in southern California.

This Settlement also makes changes in the transportation balancing rules on SoCalGas’ system, while retaining the current 10% monthly imbalance tolerance for transportation customers. This settlement explicitly subjects SoCalGas’ Gas Acquisition department to the same balancing rules and penalties as all other shippers on the SoCalGas system, except that the current winter balancing rules that apply special flowing supply requirements to core gas suppliers, including SoCalGas’ gas acquisition function and core aggregation transportation marketers, will be retained. A detailed methodology for determining the daily imbalances of core gas suppliers including SoCalGas’ gas acquisition function is specified by this Settlement. SoCalGas’ Gas Acquisition department will no longer buy or sell through its supply portfolio imbalances of transportation customers outside their tolerance levels. Rather, cumulative imbalances will remain the property of the transportation customer, but the customer will be subject to modified imbalance charges intended to substantially deter imbalances outside allowed tolerances. Current rules that limit the trading of imbalances will be liberalized.

This Settlement provides express language in SoCalGas' tariffs giving unbundled storage customers the right to assign and reassign their storage contracts in a secondary market (including for terms less than the full contract terms). SoCalGas will establish a voluntary electronic bulletin board ("EBB") for secondary trading in storage contracts on SoCalGas' system. The storage capacity required for minimum core reliability purposes will remain bundled in core transportation rates. The storage capacity allocated by the Commission in SoCalGas' pending BCAP A.98-10-012 which exceeds that required for core minimum reliability will be unbundled from core transportation rates. SoCalGas' Gas Acquisition department will be assigned a proportionate share of the cost of storage other than for core reliability, which it will recover through the PGA Core Sub-Account. Core aggregation transportation ("CAT") marketers will have the option to accept or decline assignment of a proportionate share of storage allocated to the core market which exceeds that required for core minimum reliability.

This Settlement provides for recovery in rates of all implementation costs actually incurred by SoCalGas to implement its provisions, in a capitalized amount not to exceed $3.5 million.

A collaborative forum will be established for stakeholders to discuss possible further restructuring changes, including those that could be implemented on or after January 1, 2003. If no settlement of those issues is filed by September 1, 2000, the Commission will promptly institute a new proceeding to consider proposals in time that they could be implemented by January 1, 2003.

Terms Of Settlement

I. Replacement of the Current "Windowing" Process

SoCalGas currently applies a "windowing" procedure to determine the maximum amount of gas on a daily basis that it allows to be scheduled by shippers as a whole for each of the receipt points on its system. The details of this procedure are set forth in SoCalGas Advice Letter 2837. In summary, the current windowing procedure bases the maximum amount allowed to be scheduled for each receipt point on prior day nominations, except at the first of the month.

A. <u>Establishment of Receipt Point Capacities</u>: The current "windowing" process on the SoCalGas system will be eliminated. In its place, SoCalGas will adopt a system under which it will establish receipt point capacities, subject to revision daily, on the basis of physical maximums for each receipt point under the operating conditions expected for that day. If SoCalGas customers' nominations in total for a receipt point exceed SoCalGas' physical maximum capacity for the day at that receipt point, SoCalGas will continue to have the upstream pipeline at the interconnection point determine which shippers' gas will be scheduled up to the physical maximum based on the upstream pipeline's capacity rights system. The daily maximums for each receipt point will be posted on SoCalGas' publicly available GasSelect system daily prior to the nomination deadlines. Attached hereto in Appendix G are revisions to SoCalGas' tariffs that reflect the terms of this Settlement with respect to replacement of the current windowing procedures.

B. <u>Allocating Wheeler Ridge Receipt Point Capacity</u>: At the Wheeler Ridge receipt point there is more than one upstream pipeline/supply source. Therefore, it is not possible to rely on a single upstream pipeline's capacity rights system to allocate capacity at SoCalGas' Wheeler Ridge receipt point when SoCalGas' customer nominations exceed the physical maximum of that receipt point. This Settlement allocates the Wheeler Ridge maximum daily physical capacity (including at least 50 MMcfd at Hector Road, as discussed in the following section) between upstream delivery sources pro rata on the basis of the prior day's scheduled deliveries from each upstream source. An example is shown below, assuming that the maximum daily physical capacity on a particular day has been established to be 830 MMcfd, and that total nominations for the Wheeler Ridge receipt point exceed 830 MMcfd:

Wheeler Ridge Operating Capacity = 830 MMcfd

Prior Day Sched. Del.				Allocated Capacity
Kern/Mojave	=	300	=	356 MMcfd
PG&E	=	325	=	385 MMcfd
Elk Hills	=	75	=	89 MMcfd
(Via Wheeler)	=	700	=	830 MMcfd

Customer scheduled deliveries for each of the sources that deliver gas to SoCalGas at Wheeler Ridge would be reduced to the Allocated Capacity for each upstream source, as illustrated above, by the capacity rights system on the individual upstream sources. For example, if 400 MMcfd had been nominated on PG&E, SoCalGas would inform PG&E it would accept only 385 MMcfd from PG&E, and PG&E would determine which customers' gas would be delivered to total 385 MMcfd.

II. Hector Road As A Formal Receipt Point

SoCalGas' interconnection with Mojave Pipeline Company ("Mojave") at Hector Road will be established as a formal receipt point on the SoCalGas system at which volumes can be nominated by SoCalGas transportation customers. The total capacity available at Hector Road will be subject to adjustment daily based on operating conditions, but such capacity will be 50 MMcfd or greater as long as Mojave delivers at least 50 MMcfd at Hector Road on each day for which volumes equal to or greater than 50 MMcfd were nominated for delivery at Hector Road. Volumes nominated at Hector Road in excess of 50 MMcfd would be secondary to nominations on SoCalGas' system for deliveries from Transwestern Pipeline Company ("Transwestern") at SoCalGas' North Needles receipt point. SoCalGas will not set the maximum daily receipt point capacity at North Needles at less than 750 MMcfd unless operating conditions unrelated to the Hector Road receipt point require such action. All volumes delivered at Hector Road will be subject to the Wheeler Ridge access fees and surcharges as long as the Commission keeps any such fees or surcharges in effect with respect to deliveries at Wheeler Ridge. This Settlement does not prohibit the Commission from eliminating the Wheeler Ridge access fee and from rolling-in Wheeler Ridge interconnection costs.

Establishment of Hector Road as a formal receipt point for nominations into the SoCalGas system is conditioned on the Federal Energy Regulatory Commission ("FERC") approving Hector Road as a formal delivery point by Mojave. The Parties to this Settlement agree to support such action by the FERC. By approval of this Settlement, the Commission agrees to support such action by the FERC.

III. Criteria for Expansion of Wheeler Ridge Receipt Point Capacity

Some parties have expressed a desire for SoCalGas to be able to receive additional gas at its Wheeler Ridge receipt point. This Settlement addresses this concern by establishing criteria that, if met, will trigger an investment by SoCalGas to expand its capacity to receive gas at Wheeler Ridge.

SoCalGas anticipates, based on current facilities and operating conditions, that the daily combined maximum operating capacity at Wheeler Ridge and Hector Road will be approximately 830 MMcfd on most days. Of this capacity, a minimum of 50 MMcfd would be provided at Hector Road. Hector Road receipts are included with Wheeler Ridge receipts in these criteria because deliveries at Hector Road from Mojave reduce deliveries that would otherwise be nominated to be delivered from Mojave at the SoCalGas Wheeler Ridge receipt point, thus making available receipt point capacity at Wheeler Ridge from upstream sources other than Mojave.

SoCalGas will construct facilities providing a 100 MMcfd expansion of its Wheeler Ridge receipt point capacity if criteria set forth in Appendix A to this Settlement are met. In general, the criteria provide that if SoCalGas is not able to meet the 830 MMcfd Wheeler Ridge capacity stated in the paragraph above and there is sufficient demand for that capacity, SoCalGas will construct an expansion. In summary, Appendix A provides that the criteria for expansion will be met if confirmed nominations at Wheeler Ridge up to a level of 780 Mmcfd are cut more than 5%, less any unutilized firm Hector Road capacity, on 60 or more days in any consecutive 12-month period. The specific language in Appendix A is controlling over the summary description of the criteria in this section. This Settlement also provides that the Commission shall allow SoCalGas to reflect the revenue requirement associated with any such future expansion in rates as of the date the expansion goes into service in a manner that would allow SoCalGas a reasonable opportunity to actually recover that cost. The capital cost of the facilities that the Commission shall allow in rates shall not exceed the lesser of the actual capital cost or $12 million (in 1999 dollars, escalated by the CPI). The cost of any such expansion will be rolled into SoCalGas' transportation rates (i.e., not charged incrementally for transportation of gas delivered only at Wheeler Ridge), but this Settlement does not fix the allocation of this cost between customer classes (e.g., between core and noncore customer classes).

IV. Operational Flow Orders

SoCalGas currently has and uses authority under its tariff Rule 30 to call overnomination events (generally, occurring between April and October) to manage daily imbalances on its system within its capacity to accommodate. This Settlement modifies SoCalGas' tariff Rule 30 to eliminate the overnomination event process, and in its place to provide SoCalGas with the authority to issue Operational Flow Orders ("OFO"s).

OFOs would be issued by SoCalGas when the current (flow) day's scheduled deliveries exceed the forecast of the next day's system capacity to receive gas. OFOs would be declared by 7:30 a.m. for the next flow day. SoCalGas would also have the right to issue emergency OFOs by 3:30 p.m. for the next flow day. Emergency OFOs would be called only in the event that customers failed to respond sufficiently to the calling of an OFO, or if changed operating conditions so required. Penalties for violation of an emergency OFO would be substantially higher than for violation of an OFO, as discussed in the section below regarding balancing. Tariff language for Rule 30 consistent with this aspect of this Settlement is attached hereto in Appendix G.

This Settlement requires SoCalGas to post operating information that is at least as extensive as PG&E would be required to post if its OFO settlement filed on October 22, 1999, in I.99-07-003 were approved by the Commission. A detailed description of this Settlement's requirements for posting of OFO-related information by SoCalGas is set forth in Appendices B and C to this Settlement. In addition, during each summer season (generally, April through October), SoCalGas will provide on an after-the-fact basis on its GasSelect system sufficient data by customer class (core, noncore non-generation, and noncore generation) to allow parties to analyze the reasons that particular OFOs were called by SoCalGas.

It is the hope of the Parties that the elimination of SoCalGas' windowing procedures pursuant to this Settlement will not cause SoCalGas to have to issue a large number of OFOs. However, the parties recognize the possibility that additional steps may have to be taken to prevent an excessive number of OFOs on SoCalGas' system as a result of other changes provided for in this Settlement. This Settlement in Appendix B provides a process for triggering and conducting an "OFO Forum" if the number of OFOs or emergency OFOs called by SoCalGas under this Settlement exceeds eight (8) during the first two months of settlement implementation.

V. Establishment of Gas Supply Pools on SoCalGas' System

Parties to this Settlement have expressed interest in measures that would increase the liquidity of trading of gas supply in California and that would assist marketers and gas consumers in managing their gas supplies. One tool for this purpose that many interstate pipelines offer is pooling of shipper supplies. This Settlement provides for the establishment by SoCalGas of pooling of gas supplies by customers and marketers on its system.

Pursuant to this Settlement, customers and marketers (including marketers without a specific end-use customer) will be permitted, but not required, to have pools on the SoCalGas system. Customers and marketers will be permitted to trade gas among pools on a daily or nomination cycle basis without changing their nominations for deliveries from interstate pipelines. SoCalGas will permit nominations from a supply source to a pool, from storage to a pool, from one pool to another pool, and from a pool to storage or to customer burn. Customers and marketers will not be permitted to hold imbalances in pools after the first of the four daily nomination cycles. Thus, gas scheduled into a pool during any nomination cycle other than the first nomination cycle of a day must be simultaneously scheduled out of a pool to burn, storage, or another pool. California producers will be permitted to operate under their producer balancing agreements for gas produced in California. Interstate pipeline nominations would be permitted to roll cycle-to-cycle and day-to-day until changed by the customer or marketer. Additional details regarding the pooling system adopted by this Settlement are described in Appendix D.

SoCalGas may charge a fee for pooling transactions only to the extent set forth in Appendix D. It is understood and agreed that the pool transfer fee described in Appendix D shall terminate on December 31, 2002, unless by that date SoCalGas has requested and the Commission has approved a continuation of that fee or some alternative.

The Parties to this Settlement have not had sufficient time to develop full tariff language describing all aspects of a pooling system for SoCalGas prior to the submission of this Settlement. The Parties intend to submit such tariff language as soon as possible after the filing of this Settlement.

Notwithstanding the “Term” section of this Settlement, the details of SoCalGas’ pooling service established by this Settlement and the pooling tariff language to be submitted may be modified to enhance the liquidity of gas trading prior to January 1, 2003 with the approval of the Commission.

VI. Modification of Balancing Rules, Penalties, and Trading

SoCalGas will retain the current 10% monthly transportation imbalance tolerance as the standard transportation balancing service bundled in noncore rates. However, this Settlement makes a number of other changes in SoCalGas’ balancing rules and service, as described below. Revised language for SoCalGas’ tariffs to implement the terms of this section of this Settlement is attached hereto as Appendix G.

A. **<u>Core/Noncore Parity</u>:** All customers, including the SoCalGas Gas Acquisition department, will be subject to the same rules and penalties regarding the monthly "ten percent" balancing tolerance, the OFO "ten percent" tolerance, and winter balancing. However, current winter (November through March) flowing supply requirements would continue to apply to the SoCalGas Gas Acquisition department and to CAT marketers. SoCalGas’ Gas Acquisition department will be treated like any other customer and will be permitted to nominate gas for delivery to (1) end-use burn; (2) its pool, or (3) storage. Also like any other customers, the SoCalGas Gas Acquisition department will be permitted to nominate deliveries of on-system gas out of its pool or out of storage.

Core imbalances, including imbalances incurred by SoCalGas’ Gas Acquisition department and by individual CAT marketers, shall be determined on the basis of the forecast daily demand methodology described in Appendix E. Appendix E also describes the manner and extent to which such forecasts shall be made publicly available. Class forecasts of noncore electric generation and noncore nongeneration daily demand will also be made publicly available by SoCalGas. The terms of this Settlement providing for the public release of this demand forecast information resolves the issue of the information issue identified beginning at mimeo p.79 of D.99-07-015. Notwithstanding the “Term” Section of this Settlement, the core forecast daily demand methodology described in Appendix E may be modified prior to January 1, 2003, with Commission approval, if the Commission concludes that a modification is justified in the interests of accuracy.

This Settlement also provides for the term of this Settlement that SoCalGas’ existing rules, facilities, and procedures provide noncore customers with sufficient ability to access real-time information about their own consumption.

SoCalGas’ Gas Acquisition department will no longer buy or sell noncore imbalances above tolerance levels. Rather, imbalances will remain the property of the customer and the responsibility of the customer to correct through trading or adjustment of subsequent deliveries and/or consumption.

Notwithstanding the provisions of Mitigation Measure III.Q. (Remedial Measure 17) as set forth in the Pacific Enterprises/Enova Corporation merger decision, D.98-03-073, Attachment B, SoCalGas’ Gas Operations department may for the term of this Settlement conduct emergency communications with SoCalGas’ Gas Acquisition department without publicly posting such communications for up to seven days after the date of communications. The public posting within seven days of the emergency communications shall reveal the nature of the emergency and the nature of the communications. For purposes of this Settlement, an emergency shall be deemed to be an extreme condition that jeopardizes the integrity of the SoCalGas system and that cannot be corrected or minimized by other measures permitted by SoCalGas’ tariff and that, therefore, requires the assistance of SoCalGas’ Gas Acquisition department to maintain the operational integrity of the system.

B. **<u>Imbalance Charges</u>:** The current Schedule G-IMB imbalance gas purchase and sale mechanism will be replaced by an imbalance charge mechanism. The imbalance charges are intended to provide a strong incentive for customers and marketers to remain within the allowed imbalance tolerances. The OFO and winter balancing rules imbalance charge for both core and noncore will be 100%[1] of the daily index price for the spot market at the southern California border, except in the case of summer emergency OFOs, in which case a $25/dth penalty would apply for positive imbalances in excess of the applicable ten percent tolerance. Monthly imbalance charges for all customers, including SoCalGas' Gas Acquisition department and CAT marketers, will be set at 50% of the average of spot index California border prices over the relevant month. Imbalance charge revenues will be applied to reduce customer transportation rates on an equal cents per therm basis. Given the elimination of provisions for the purchase and sale of imbalance gas by SoCalGas' Gas Acquisition department, imbalances would remain with the customer for disposition.

C. **<u>Imbalance Trading</u>:** Trading of monthly imbalances will continue to be permitted. In order to facilitate the development of a liquid imbalance trading market, existing restrictions on monthly imbalance trading will be eliminated. Thus, customers (including SoCalGas' Gas Acquisition department) would be permitted to trade away from zero during an imbalance trading period, with customers continuing to be required to be within applicable imbalance tolerances by the end of the applicable imbalance trading period.

Trading of OFO (including emergency OFO) imbalances and winter imbalances will also be permitted. As with monthly imbalances, customers will be permitted to trade away from zero, with customers continuing to be required to be within applicable tolerances by the end of the trading period for the OFO. OFO and winter imbalance trading would be specific to the day or period for which the imbalance occurred and

[1] Except that it will be 50% of the daily index price in the winter when storage inventory is at such a level that the balancing requirement is 50% of consumption measured over a five-day period. An imbalance charge of 100% of the daily index price will apply in the winter when storage inventory has fallen to a level that triggers a 70% or 90% daily balancing requirement.

would alter the customer's monthly imbalance position. Monthly and daily imbalance trading would be permitted to commence on the day after the end of the period over which the imbalance was accumulated, although SoCalGas would continue to provide imbalance information to customers according to the current schedule, under which customers receive consumption and imbalance information.

VII. Modification of Storage Services

This Settlement makes a number of changes in SoCalGas' storage service in order to enhance competitive markets. Tariff language reflecting the terms of this Settlement as applicable to storage service are attached hereto in Appendix G.

A. <u>Storage Contract Assignment</u>: This Settlement provides that customers of SoCalGas' unbundled storage service will have explicit rights to assign in a secondary market their storage contract for all or portion of the term of their storage contract. Storage contracts may be reassigned additional times, for all or part of the term of the contract that had been assigned. Assignors of storage contracts will remain secondarily liable to SoCalGas in the event the assignee does not pay SoCalGas any amounts owing under such contracts, provided that an assignor shall not be secondarily liable if at the time of assignment it requests SoCalGas to release it of liability and the assignee then meets the creditworthiness standards for storage contracts set forth in SoCalGas' tariffs. The Commission will not regulate the price paid for assignment of storage contracts in the secondary market.

In order to facilitate the exercise of the ability to trade storage contracts in a secondary market, SoCalGas will establish an electronic bulletin board ("EBB") for the trading of storage contracts on its system. No separate fees beyond existing charges for access to the SoCalGas GasSelect system shall be charged for the use of the EBB. Use of the SoCalGas EBB to effect trades of storage contracts is at the option of the holders of storage contracts. The price at which any storage contract transaction posted on the SoCalGas EBB is made shall not be disclosed except with the approval of the parties to the transaction. Storage contracts on the SoCalGas system will also be subject to assignment other than on the SoCalGas EBB. Assignment of storage contracts will be recognized by SoCalGas when it is notified by the assignor of the assignment, the term of the assignment, the identity and address of the assignee, and the effective date of the assignment. Consideration paid for the assignment need not be disclosed to SoCalGas or any other person.

B. Core Storage:

This Settlement incorporates by reference the reservation of total storage capacity for core customers that the Commission adopts in its decision that as of the date of this Settlement is yet to be issued in the 1999 SoCalGas BCAP, A.98-10-012, for the term of the BCAP period that the Commission decides to adopt in A.98-10-012. All of the withdrawal capacity that the Commission allocates to core service and 50% of the inventory and associated injection capacity the Commission allocates to core service in its decision to be issued in A.98-10-012 is hereby designated as being for purposes of minimum core service reliability. All storage capacity for minimum core service reliability will remain bundled in transportation rates charged to all core customers, regardless of their gas supplier. CAT marketers must take and pay for a pro rata share of the storage capacity for minimum core service reliability allocated to the core subclasses which they serve. CAT marketers are required to store gas to reach target winter inventories based on their pro rata share of minimum core service reliability storage inventory.

SoCalGas' Gas Acquisition department will be assigned the use and cost of its pro rata share of the total core market of the remaining 50% of core storage inventory and associated injection capacity not designated as for minimum reliability purposes. The cost of that capacity will be included in SoCalGas' PGA Core Sub-Account based on

Commission-adopted unscaled LRMCs. CAT marketers will have the option, but not the obligation, to accept at unscaled LRMC rates a pro rata share of the 50% of core inventory and injection capacity not designated as being for minimum core service reliability or balancing service. The cost of storage capacity not accepted by CAT marketers will be treated as capacity available for unbundled storage service and its unscaled LRMC will be subject to the same shareholder risk as provided by this Settlement for other unbundled storage service cost. The revenue requirement associated with any scalar applicable to the LRMC associated with storage capacity not accepted by CAT marketers will remain bundled in core transportation rates.

C. **Wholesale Storage:** This Settlement provides wholesale customers with three storage options with respect to service for their core loads: (1) to rely on alternatives to direct assignment of any portion of SoCalGas' storage capacity to provide reliability (but with the ability to acquire SoCalGas storage capacity in the primary or secondary unbundled noncore storage market) and be considered noncore, subject to noncore curtailment rules; (2) to receive tariff-based storage service for the storage allocations proportionate to SoCalGas' core reliability reservation as applicable, provided that SDG&E also has the option of tariff-based storage service in the amount of the storage allocation to SDG&E ordered in the decision to be issued in SDG&E BCAP A.98-10-031; (3) to receive tariff-based storage reservation proportionate to SoCalGas' total core storage allocation.

D. **Balancing Function:** This Settlement incorporates by reference the allocation of storage capacity and cost to the balancing function that the Commission will adopt in its decision yet to be issued in SoCalGas' 1999 BCAP, A.98-10-012, including the allocation of balancing costs between core and noncore classes. Balancing costs shall remain bundled in transportation rates for the Term of this Settlement. Notwithstanding the provisions of this Settlement regarding its Term, the Commission shall have discretion to modify prior to January 1, 2003: (a) the allocation of storage capacity and cost necessary to provided the bundled balancing function; and (b) the allocation between core and noncore customers of storage capacity and cost for the balancing function.

E. <u>Unbundled Storage Service</u>: Storage capacity not allocated to core (including core aggregation transportation marketers), wholesale, and balancing functions as described in above portions of this Section will be available for SoCalGas to market as unbundled storage service. SoCalGas will be allowed to market unbundled storage service under the terms of its GTBS rate schedule existing as of the date this Settlement is filed. The Commission shall have the discretion to adopt one of two options with respect to SoCalGas shareholder risk for unbundled storage costs: (a) the Commission may adopt the provision entitled "VIII. ALL OTHER STORAGE ISSUES" of the Joint Recommendation for the SoCalGas BCAP (Exhibit No. 169, including its addendum) in A.98-10-012; or (b) the Commission may retain the existing SoCalGas Noncore Storage Balancing Account. Whichever option the Commission adopts the Commission shall not require SoCalGas to change prior to January 1, 2003.

VIII. Costs

The capitalized cost associated with developing and implementing new or enhanced computer systems for this Interim Proposal is estimated to be $2.7 million. In order to expedite the implementation of this Interim Proposal, SoCalGas will begin programming the necessary enhancements immediately upon submission of this Settlement. SoCalGas will establish an account to which the costs associated with development and implementation will be booked. SoCalGas will capitalize these costs and as of the date this settlement is implemented will be entitled to recover in transportation rates or Commission-approved fees the revenue requirement associated with these costs. The total capitalized amount that SoCalGas shall be allowed to book to this account shall not exceed $3.5 million. SoCalGas shall book as a credit against the revenue requirement associated with these costs revenues from any Commission-approved fees it receives for pooling transactions, and SoCalGas shall refund in rates any amount by which pooling fees exceed the revenue requirement associated with costs booked to the account. Allocation among customers of the revenue requirement and revenues associated with this account is not resolved by this Settlement. SoCalGas shall not charge any fees for pooling transactions, imbalance trading, or storage contract assignment other than those specifically allowed by this Settlement for the Term of this Settlement.

IX. Term

This Settlement will become effective on the first day of the second month following the month in which this Settlement is approved (e.g., if approved by the Commission on March 15, 2000, it would become effective on May 1, 2000), provided however, that the pooling provisions will become effective June 1, 2000 if that date is later than the effective date of this Settlement.

This Settlement will remain in effect until at least December 31, 2002, and its provisions will remain in place thereafter unless and until the Commission orders to the contrary.

By approving this Settlement, the Commission agrees not to require SoCalGas to implement prior to January 1, 2003 any regulatory provisions inconsistent with the terms of this Settlement. Provisions that the Commission agrees not to require SoCalGas to implement prior to January 1, 2003 include, but are not limited to, the following: the establishment of a system of firm, tradable rights in SoCalGas' intrastate transmission capacity and/or receipt point capacity that would necessitate or create the likelihood of either rate design changes or cost shifts between customer classes; the unbundling of the cost of SoCalGas' intrastate transmission system; the institution of full-time daily balancing for transportation service; any further unbundling of storage costs; the implementation of shareholder risk for storage different than the options provided in

Section VII. of this Settlement; changes to the way the tariff language adopted herein applies transportation and storage rules to the SoCalGas Hub; the removal of Hub revenues from the SoCalGas Gas Cost Incentive Mechanism ("GCIM") as long as SoCalGas retains its role as default provider of gas supply to the core market; and additional information disclosure requirements regarding real-time information, electronic bulletin boards, and demand forecasts beyond those specified by this Settlement.

This Settlement does not prohibit the Commission from implementing prior to January 1, 2003, any regulatory changes not inconsistent with this Settlement. Regulatory changes that would not be inconsistent with this Settlement and thus could be implemented prior to January 1, 2003, include the unbundling of interstate pipeline capacity for SoCalGas core transportation customers.

X. Removal of Issues from SoCalGas' 1999 BCAP Application (A.98-10-012)

This Settlement resolves a number of issues raised in SoCalGas' 1999 Biennial Cost Allocation Proceeding ("BCAP"), A.98-10-012, including the inclusion of hub revenues in SoCalGas' GCIM, SoCalGas' windowing procedures, the application of transportation balancing rules to SoCalGas' Gas Acquisition department, and the liberalization of SoCalGas' imbalance trading rules. Within ten (10) days of the date this Settlement is filed in I.99-07-003, SoCalGas and interested parties that are signatories to the Settlement and were involved in litigating the affected issues in A.98-10-012 shall file a motion in A.98-10-012 to ask that the Commission take notice in A.98-10-012 of this Settlement and request that action on the issues raised in A.98-10-012 that are resolved by this Settlement be deferred from A.98-10-012 to I.99-07-003.

XI. Collaborative Process for Further Regulatory Changes

By approval of this Settlement, the Commission agrees to the establishment of a process for all interested stakeholders to discuss and negotiate further regulatory changes, including changes that the Commission cannot require to be implemented prior to January 1, 2003, pursuant to this Settlement. This collaborative process will commence promptly after the approval of this Settlement by the Commission, if the stakeholders have not already commenced this process on a voluntary basis prior to the approval of this Settlement. Collaborative meetings open to all interested stakeholders will be scheduled at least once a month, and more often if desired by the participants. Stakeholders involved in the collaborative process related to SoCalGas will use their best efforts to coordinate with discussions of issues applicable to Pacific Gas and Electric Company that would apply on or after January 1, 2003. In the event that no settlement for the implementation of further changes to the gas industry structure applicable to SoCalGas is reached and submitted to the Commission through this collaborative process by September 1, 2000, the Commission will promptly institute a proceeding to consider further changes to be effective on or after January 1, 2003. The Commission will afford parties proposing further changes a procedural schedule in that newly-instituted proceeding that would allow any further changes the Commission decides to adopt to be implemented as early as January 1, 2003.

XII. Appendices

The Appendices attached to this Settlement are an integral part of the Settlement and are incorporated by reference. In any case in which an Appendix provides a more detailed description of the terms of this Settlement than as set forth above, the Appendix shall be controlling over the text of this Settlement.

XIII. Reservations

This Settlement represents a negotiated compromise among the signatories on a large number of issues. If not accepted by the Commission, the terms of this Settlement shall not be admissible in evidence unless agreed to by all signatories to this Settlement. Nothing contained herein shall be deemed to constitute an admission or an acceptance of any fact, principle, or position contained herein by any party.

The signatories to this Settlement intend that the Settlement be treated as an entire package and not as a collection of separate agreements on discrete issues. Parties bargained for specific provisions on some issues in exchange for concessions on other issues. Accordingly, the signatories to this Settlement urge the Commission to approve it without modification. Any material modification to the Settlement required by the Commission as a condition of its approval shall render it null and void, unless the modification is agreed to by all signatories.

This Settlement is agreed to and supported by the parties listed below.

Party: Burlington Resources
Representative: Paul Keeler
Date: 12/27/99

Party: California Industrial Group
Representative: Keith McCrea
Date: 12/27/99

Party: California Manufacturers Association
Representative: Keith McCrea
Date: 12/27/99

Party: Chevron Corporation
Representative: David Stevenson and Paul McKelvey
Date: 12/2799

Party: City of Burbank
Representative: Terry Stevenson
Date: 12/27/99

Party: City of Glendale
Representative: Stevens G. Lins
Date: 12/27/99

Party: City of Pasadena
Representative: Eric Klinkner
Date: 12/27/99

Party: Coral Energy Resources, L.P.
Representative: John Leslie
Date: 12/27/99

Party: Dynegy
Representative: Joseph M. Paul
Date: 12/27/99

Party: Imperial Irrigation District
Representative: Norman Pedersen
Date: 12/27/99

Party: Los Angeles Department of Water and Power
Representative: Robert L. Pettinato
Date: 12/27/99

Party: Occidental Energy Marketing Incorporated
Representative: Michael L. Pate
Date: 12/27/99

Party: Reliant Energy Power Generation
Representative: Gary Hinners
Date: 12/27/99

Party: San Diego Gas and Electric Company
Representative: Glen Sullivan
Date: 12/27/99

Party: Southern California Gas Company

Representative: Glen Sullivan
Date: 12/27/99

Party: Southern California Generation Coalition
Representative: Norman Pedersen
Date: 12/27/99

Party: Southern California Utility Power Pool
Representative: Norman Pedersen
Date: 12/27/99

Party: Southern Energy California
Representative: Kelvin Yip
Date: 12/27/99

Party: Southwest Gas Company
Representative: Thomas J Armstrong
Date: 12/27/99

Party: Williams Energy Services
Representative: Roger T. Pelote
Date: 12/27/99

APPENDIX A

Objective Criteria for Proposing a Wheeler Ridge System Expansion

If the confirmed nominations from upstream pipelines and/or suppliers* for deliveries at Wheeler Ridge, up to a maximum of 780 MMcfd†, are cut by more than 5%, less any unutilized firm capacity (the 50 MMcfd) at Hector Road‡, on 60 days or more in any consecutive 12-month period, the settlement parties agree to support a 100 MMcfd expansion of Wheeler Ridge firm capacity. The expansion costs are to be recovered in rates at a cost not to exceed $12 million in 1999 dollars§.

Examples:

1) Confirmed Nominations from upstream pipelines and/or suppliers: 780 MMcfd
Available Capacity at Wheeler Ridge on given day: - 700 MMcfd
Upstream Nominations Cut: 80 MMcfd

Adjust for unutilized firm capacity at Hector Rd. (If fully utilized=0): - 0 MMcfd
Net Cut in Upstream Nominations: 80 MMcfd

Percent of Upstream Nominations Cut: (80/780) = 10.3%

Counts as 1 day since the net cut > 5% of the confirmed upstream nominations.

2) Available Capacity = 760 MMcfd. 900 MMcfd nominated. Max. Exp. limit = 780 MMcfd.
>50 MMcfd nominated at Hector Rd.: (780-760-0)/780 = 2.6 % cut. Does not count.

3) Available Capacity = 700 MMcfd. 750 MMcfd nominated. >50 MMcfd at nominated at Hector Road. (750-700-0)/750 = 6.7 % cut. Counts as 1 day.

4) Available Capacity = 700 MMcfd. 750 MMcfd nominated. 20 MMcfd nominated at Hector Road = 30 MMcfd unutilized. (750-700-30)/750 = 2.7% cut. Does not count.

* PG&E, Kern-Mojave, and OXY must provide confirmed daily nominations data to SoCalGas.

† The maximum firm capacity provided by a Wheeler Ridge compressor expansion is 780 MMcfd. This firm capacity is provided by adding a 4th compressor unit at Wheeler Ridge.

‡ The Hector Road firm capacity adjustment is necessary to ensure that upstream shippers utilize all available options to deliver gas into the SoCalGas system before an expansion at Wheeler Ridge is triggered. OXY must also fully utilize assigned Line 85 capacity.

§ The $12 million cost estimate is in 1999 dollars and is subject to an annual CPI inflation adjustment.

APPENDIX B

Objective Standards to Monitor and Control OFO Events

1. Information on OFOs: Over each summer season (April through October) during the settlement, SoCalGas will provide sufficient data on its electronic bulletin board, to enable the market to analyze the reasons for systemwide OFOs (and EFOs) by customer class.

2. Initial Mid-Summer Review: In the first year immediately following implementation of the settlement agreement, SoCalGas shall undertake a review of the number of, and causes for its systemwide OFOs, based upon the results of the first two months of the settlement implementation. If there were more than eight (8) OFO and/or E-OFO days during this period, and if any customer or shipper is found to have been responsible for causing (or contributing to significantly as determined by as-available injections as a percentage of burn) more than 25 percent of the OFO's and/or E-OFOs in this period (i.e., an "offending party"), the following steps shall be triggered:

a. SoCalGas shall convene an "OFO Forum" on or the 10th day following the third month of settlement implementation.

b. The Forum shall agree upon measures, to impose upon the offending party(ies).

c. Such measures shall be implemented effective on the 1st of the fourth month of settlement implementation.

d. If the SoCalGas Gas Acquisition group (Gas Acquisition) is an offending party, the measure that will be implemented by the Forum will be that Gas Acquisition's daily deliveries into the system shall be limited to actual burn plus firm storage injection rights plus a pro rata share (based upon percentage of system burn) of total as-available storage injection capacity. Other offending parties, if any, would be subject to similar limitations.

e. The measures in the initial mid-summer review for all offending parties shall remain in effect until the end of the next succeeding summer season.

3. Annual Review: If, over the immediately preceding summer period, SoCalGas has called more OFOs than there were "overnomination" events (or OFO events) during the corresponding previous summer period, SoCalGas will convene an "OFO Forum" within thirty (30) days after the end of the period.

a. At least five (5) days prior to the OFO Forum, SoCalGas will propose measures that are likely to reduce the number of systemwide OFOs.

b. If any customer or shipper has been found to be the cause for (or a significant contributor to) more than 25 percent of the OFOs and/or E-OFOs during the summer, and the OFOs and/or E-OFOs average at least four per month, SoCalGas will propose to the Forum measures that are likely to reduce the likelihood that that particular customer or shipper will continue to be a contributor to the OFOs in the following summer period (either on a seasonal or monthly basis).

   i. The measures offered by SoCalGas shall include procedures and penalties which would limit the daily deliveries of the customer or shipper into SoCalGas' system on non-OFO days for the following summer period(s).

   ii. For example: If any customer, including the SoCalGas core procurement group, is found to cause more than 25% of the OFOs, then the Forum may decide that the customer will be subject to the imposition of a $0.25/dth charge if it uses more as-available injection rights than X% of its burn (X to be determined by the OFO Forum) on non-OFO summer days. Alternatively, the OFO Forum may consider applying any such penalties only on days where customer deliveries actually do cause an OFO to be called for the following day.

c. The Forum (through SoCalGas) will propose to the CPUC (through an advice letter) one or more measures intended to reduce the number of systemwide OFOs, per agreement of the Forum. The Forum must propose such measures within sixty (60) days after the Forum first convenes.

Sample Report Format: Operational Information

SUPPLY/DEMAND FORECAST	Volume in MMcf	Actual for 11/12/99
OFO, E-OFO , Monthly and other balancing status		50% Winter
Composite system temperature		62.7
Demand		
On-System demand		2612
Storage injection		472
Total system demand		**3084**
(Note: Storage to PG&E by displacement)		0
Supply		
El Paso - Topock		501
El Paso - Ehrengerg		994
Kern/Mojave - Wheeler Ridge		320
PG&E - Wheeler Ridge		132
Elk Hills - Wheeler Ridge		50
Hector Road		50
Transwestern - North Needles		716
California Production		262
Storage withdrawal		0
Total system supply		**3025**

Maximum Capacities	Volume in MMcf	Forecast for 11/13/99
Maximum Capacities by Receipt Point		
El Paso - Topock		520
El Paso - Ehrengerg		1250
Total Wheeler Ridge (including Hector Road)		830
Kern/Mojave - Wheeler Ridge		360
PG&E - Wheeler Ridge		370
Elk Hills - Wheeler Ridge		50
Hector Road		50
Transwestern - North Needles		750
California Production		290
Maximum Storage Capacity		
Storage injection capacity		780
Storage withdrawal capacity		2000
TOTAL SYSTEM CAPACITY		**3480**

Demand Forecasts by Customer Class

Volume in MMcf/d	October 1999 Monthly Estimate
Core	1060
Noncore Electric Generators	420
Remaining Noncore	1220
Total	**2700**

Daily demand by customer class using the "day ahead" forecast with a three-day posting lag

Forecast for 11/13/99	Forecast for 11/14/99	Forecast for 11/15/99	Forecast for 11/16/99
50% Winter	50% Winter	50% Winter	50% Winter
62.3	61.1	60.5	60.2
2700	2800	2800	2800
460	480	480	480
3160	**3280**	**3280**	**3280**
0	0	0	0
510	520	520	520
995	1052	1052	1052
340	345	345	345
160	180	180	180
50	75	75	75
50	50	50	50
730	730	730	730
270	275	275	275
0	0	0	0
3105	**3227**	**3227**	**3227**

Forecast for 11/14/99
530
1250
830
360
370
50
50
750
280
780
2000
3580

10/10/99 Three Day Lagged Forecast
1020
480
1250
2750

APPENDIX D

Pooling Service

Pooling Definition

"Pooling as defined by GISB is: 1) the aggregation of gas from multiple physical and/or logical points to a single physical or logical point, and/or 2) the disaggregation of gas from a single physical or logical point to multiple physical and/or logical points."

Pooling Structure

Pooling service design will focus on meeting customer desires for the use of pools. The service will be as flexible as possible, consistent with keeping the number of pool to pool transfers to a manageable level, so as to ensure that GasSelect processing time and transaction accuracy is not jeopardized.

Pooling Advantages

1. Create a liquid market for gas trading
2. Mask supply party
3. Title transfer tracking
4. Better manage market reductions from upstream pipelines
5. Simplify nomination process
6. Aggregation of supply

Pooling Location

Pooling service will be located at a logical point on the SoCalGas system between supply sources and markets. This is because SoCalGas provides transportation service on its system that allows for the receipt of gas supplies from all supply entry points and delivery to all market point without the requirement of specifying paths or routes. This system has been referred to as a matrix system. Therefore, there is no need to establish pooling service at any specific point on the system.

Pooling Eligibility

One pool will be allowed for each legal entity conducting business on the SoCalGas system.

Pool Balancing

Pools will not be required to balance during the Timely Nomination (first) cycle, but will be required to balance during each of the subsequent gas scheduling cycles each day. Pool balancing will be conducted during the nomination and confirmation process.

Transportation Charges for Pooling

Nominations to and from a pool will not incur transportation charges. Transportation charges on the SoCalGas system will be assessed in the same manner that exists today, to the end-use customer. For some end-use customer contracts and for the application of Wheeler Ridge charges (to be eliminated), some gas may have to be tagged as it moves through pools. Pools will not be allowed to deliver to an off-system location (storage issue).

Assigning Pooling Rights

Pooling service cannot be assigned to another party.

Applying For Pooling

Application forms, contracts and creditworthiness requirements will be developed for poolers.

Controlling Pool to Pool Transfers

Excessive pool to pool transfers could jeopardize processing time and title tracking. A control mechanism in the form of an administrative fee of $50 will be charged for each pool-to-pool transfer, after ten pool-to-pool transfers, per pool, per day. A pool-to-pool transfer occurs when gas leaves a legal entity's pool and enters another pool. The legal entity that delivers gas from its pool incurs the fee. Thus, each legal entity will be allowed 10 free transfers from its pool to other pools each day. A rollover of pool-to- pool transfers from cycle-to-cycle within a day will not be assessed an administrative fee.

Interaction of Nomination Process and Pools

Pooling service will be offered as an optional service and not mandated. Customers will still be able to nominate in the traditional manner or choose to use pools.

Pools shall be subject to the applicable transportation provisions as contained in SoCalGas Rule 30 as modified from time to time.

Nominations will be allowed from any nominatable receipt point. A corresponding nomination must be made to deliver gas out of the pool to another pool, SoCalGas end-user, core aggregator, Gas Acquisition, contracted marketer or storage customer. Corresponding confirmations must be made from parties receiving gas from a pool. Ranking mechanisms will be employed and the lessor of rule will apply. (See attached slides for further explanation of pooling rules)

Interaction of Transportation Service and Pools

The current requirement that contracted marketers must nominate to individual end-use customers, that they represent, will be eliminated.

Nominations to and from storage accounts that move through pools will be allowed by using either as available or firm injection and withdrawal rights.

SoCalGas will add a nomination rollover feature that permits nominations to roll from cycle-to-cycle and day-to-day until modified by the nomination entity. Default pool ranking will be prorata.

APPENDIX E

SOCALGAS' DAILY LOAD FORECASTING MODEL

General Model Structure

The Daily Load Forecasting Model (DLFM) has two components:

1. Total core load forecasting model.
2. Supplier load share model.

The first component is estimated based on historical Preliminary Daily Operating Sheet (PDOS) data. The second component is historical monthly billing data for each supplier's customer group.

PDOS Data

PDOS contain daily volume data on the total receipts of gas, storage withdrawals, net pipeline draft, which are summed to "total system receipts." It also contains data on storage injection, and daily measurements of noncore usage. The residual between total receipts and storage injection plus noncore usage consists of (unmeasured) core usage, company use, unaccounted for, and measurement errors in receipts, net draft, storage withdrawals and injections, and noncore sendout.

In order to isolate core gas use, estimated Company Use and Unaccounted-for gas has been removed from the residual data. The resulting daily estimated core use is then aggregated into monthly billing cycles and compared with measured monthly core use from billing records. The analysis found that the PDOS data understated measured core use, so the PDOS data was calibrated to match the monthly cycle core usage data from the billing records. The calibration was done on a month by month basis so that the estimated daily core use would roughly match the measured core use when summed to a billing cycle level. The calibrated daily core use data has an expected value equal to core measured use and so this calibrated PDOS data can then be used to estimate an unbiased model of total core daily usage.

Weather Data

Since core gas use is significantly affected by temperature, SoCalGas proposes to use the WeatherBank forecasting service (information on the company is available at their website, www.weatherbank.com) to provide service area weather forecasts that would be used to forecast core use a day ahead. *(Note: forecasts will be made available for 1, 2,* *3,and 4 days ahead)* This independent company provides weather forecasts throughout the nation and specifically provides forecasts for eight weather stations in the SoCalGas service area: Santa Barbara, Long Beach, LA Civic Center, Burbank, Riverside, Twenty-nine Palms, Lancaster, and Fresno. To develop an accurate representation of weather in the entire SoCalGas service area, a statistical analysis was performed relating WeatherBank station temperatures to the average temperature for the SoCalGas climate zones. The climate zones were then weighted by population in the climate zone to create the service area average temperature, service area heating degree days (HDD), and service area cooling degree days (CDD).

Total Core Load Forecasting Model

The forecasting model for total core load is a single equation of the form:

$$CV = a + b_i \cdot D_i + c_j \cdot M_j + d \cdot HDD + e \cdot CDD + f \cdot AC$$

where CV = daily core volume in Mdth

D_i = day of the week indicator for Friday, Saturday ,and Sunday

(These variables measure the impact on core load of these days compared to Monday –Thursday)

M_j = month of the year indicator for January - June, Oct.- Dec.

(These variables compare the core load in these months relative to July- September)

HDD = forecast service area heating degrees (average daily degrees that the forecast is below 65 degrees)

CDD = forecast service area cooling degrees (average daily degrees that the forecast is above 65 degrees)

AC = forecast average number of customers

a,b,c,d,e,f = estimated coefficients

This current demonstration model is estimated using 730 observations on the calibrated PDOS data for 1997 and 1998. Before implementation of the GIR framework, the model will be re-estimated using a sample period that includes 1999 data.

Supplier Load Shares

Currently, there are 15 marketers supplying gas to core customers. Combined with SoCalGas' Gas Acquisition Department (GAD), there are a total of 16 suppliers. For each supplier, SoCalGas will create a 12-month series of monthly billing data, representing historical monthly billing cycle consumption of the suppliers' current set of customers (*Note: This volume series represents the historical consumption of the group of customers' currently served by a given supplier, regardless of how these customers were supplied in previous periods*).

For each of these suppliers, the following (monthly) equation is estimated:

$$MV_s \;=\; \alpha_s + \delta_s \cdot HDD \;+\; \phi_s \cdot CDD$$

where MV_s = monthly billing cycle volume for customer group s

HDD = service area monthly billing cycle heating degree days

CDD = service area monthly billing cycle cooling degree days

Estimated values of the coefficients α_s, δ_s, and ϕ_s will be "normalized" so that the normalized values sum to one, e.g.,

$\alpha'_s = \dfrac{\alpha_s}{\alpha_s}$ where α'_s equals the normalized estimate of α_s

The normalized coefficient is used to "share" the various components of the daily load forecast between individual suppliers. Each supplier will receive a share of the non-temperature sensitive load and a share of the temperature sensitive gas use based on the characteristics of its customers.

Supplier-specific daily forecasting equations are as follows:

$$CV_s \;=\; \alpha'_s\,(a + b \cdot D_i + f \cdot AC) + \;\delta'_s \cdot (c \cdot M_i \;+\; d \cdot HDD) \;+\; \phi'_s \cdot e \cdot CDD$$

The first term is the supplier's non-temperature sensitive gas use, while the last two terms are the supplier's gas usage related to changes in temperature.

Because month-to-month changes in the group of customers served by specific aggregators may be significant, it is anticipated that each supplier forecasting equation

APPENDIX F

Interim Settlement Supporting Parties

BURLINGTON RESOURCES	LOS ANGELES DEPARTMENT OF WATER AND POWER
CALIFORNIA INDUSTRIAL GROUP	OCCIDENTAL ENERGY MARKETING INCORPORATED
CALIFORNIA MANUFACTURERS ASSOCIATION	RELIANT ENERGY POWER GENERATION
CHEVRON CORPORATION	SAN DIEGO GAS & ELECTRIC COMPANY
CITY OF BURBANK	SOUTHERN CALIFORNIA GENERATION COALITION
CITY OF GLENDALE	SOUTHERN CALIFORNIA UTILITY POWER POOL
CITY OF PASADENA	SOUTHERN ENERGY CALIFORNIA
CORAL ENERGY RESOURCES, L.P.	SOUTHERN CALIFORNIA GAS COMPANY
DYNEGY	SOUTHWEST GAS COMPANY
IMPERIAL IRRIGATION DISTRICT	WILLIAMS ENERGY SERVICES

will need to be reestimated monthly. Specific adjustments will also be made for customers with little or no gas use history (e.g., newly established businesses).

Model Calibration

It is reasonable to monitor the accuracy of the forecasts, and make model adjustments as necessary. To retain confidence in the objectivity of the forecasts, such adjustments need to rely on discretion as little as possible and on rules as much as possible. SoCalGas will develop a rule-based model recalibration process based on significant mismatch between the summation of the "day-ahead" forecasts to a monthly cycle gas use and the actual monthly cycle supplier gas use as determined from billing records.

Information Sharing

SoCalGas will post on GasSelect the "day-ahead" forecast of daily demand by customer class with a 3-day lag. There will be three customer classes: core, non-core electric generators, and remaining non-core.

APPENDIX II

COMPARISON OF COMPREHENSIVE, INTERIM, AND POST INTERIM SETTLEMENTS

Comparison of Comprehensive, Interim, and Post Interim Settlements in I.99-07-003

CPUC IDENTIFIED MOST PROMISING OPTIONS	INTERIM SETTLEMENT	POST INTERIM PROPOSAL	COMPREHENSIVE SETTLEMENT
Effective dates	Effective first day of second month after month of approval. Continues through 12/31/02.	Same effective date as Interim. Continues through August 31, 2006.	Implementation is phased from 90 days after approval through 10/1/01. Continues through August 2006
TRANSMISSION			
Create Firm, Tradable Intrastate Rights	No	No	Yes
Create Secondary Market for Intrastate Rights	N/A	N/A	Yes -- The secondary market will not be regulated with respect to price or term.
Place Utility at Risk for Unused Capacity Resources	Utility at risk for 25% of noncore transmission revenues through 12/31/02. No risk for core transmission capacity.	Same as Interim through 12/31/02. Issue open for consideration after 1/1/03.	Utility at risk for 100% of noncore backbone transmission capacity. Utility at risk for 25% of noncore local transmission capacity through 12/31/02, unresolved after 1/1/03. No risk for retail core transmission capacity.
Develop Clear Procedure for Allocating Capacity	Receipt point capacities established on basis of physical maximums. Allocation through receipt points based on upstream pipeline capacity rights system.	Same as Interim.	Receipt point capacities initially established based on physical maximums. Defined backbone rights are then established through an open season effective 10/1/01.
Make Hector Road Delivery Point	Yes	Yes	Yes

Comparison of Comprehensive, Interim, and Post Interim Settlements in I.99-07-003

CPUC IDENTIFIED MOST PROMISING OPTIONS	INTERIM SETTLEMENT	POST INTERIM PROPOSAL	COMPREHENSIVE SETTLEMENT
STORAGE			
Create Firm, Tradable Storage Rights	Customers granted right to assign storage contracts. CTAs have option to reject portion of core's 35 Bcf and associated injection.	Same as Interim.	Customers given firm storage inventory, withdrawal, or injection rights.
Create Secondary Market for Storage Rights	Provides for assignment of storage contracts. Creates EBB to facilitate trading.	Same as Interim.	Customers can trade any portion of their storage injection, withdrawal and inventory rights in the secondary market. Expanded trading opportunities through third-party provider ALTRA.
Place Utility at Risk for Unused Storage Resources	Utility at risk for 50% of unbundled storage through 12/31/02.	Utility at risk for 50% of unbundled storage through 12/31/02. Utility 100% at risk after 1/1/03.	50/50 risk between shareholders/ratepayers through 3/31/02. 75/25 through 3/31/03. SoCalGas 100% at risk effective 4/1/03.
BALANCING			
Examine structural means for SoCalGas to provide balancing services without drawing on core assets	Maintains system-wide balancing.	Same as Interim.	Separate balancing of core and noncore.
Cost and Rate Separation for Balancing Services	Maintain bundled balancing service through 12/31/02.	Same as Interim through 12/31/02. Issue open for consideration after 1/1/03.	Customers may opt out of the default balancing service and elect to self balance while receiving a self-balancing credit.
Electronic Trading of Imbalances	Permit daily and winter imbalance trading.	Same as Interim.	Expanded imbalance trading flexibility and independent trading opportunities through third-party provider ALTRA.

Comparison of Comprehensive, Interim, and Post Interim Settlements in I.99-07-003

CPUC IDENTIFIED MOST PROMISING OPTIONS	INTERIM SETTLEMENT	POST INTERIM PROPOSAL	COMPREHENSIVE SETTLEMENT
HUB SERVICES			
Separate Utility Hub Services from Procurement Function	Hub revenues in GCIM through 12/31/02.	Same as Interim through 12/31/02. Issue open for consideration after 1/1/03.	Core Hub revenues in GCIM through 12/31/02. Separates core Hub activity and creates gas operations HUB.
CORE PROCUREMENT			
Re-Examine Utility Role in Core Procurement Once a Specified Competitor Market Share has Been Established	No	No	Within 6 months of settlement approval, SoCalGas shall file an application to address competitive alternatives.
Eliminate Core Aggregation Transportation Thresholds After Adoption of Consumer Protection Measures	Does not address.	Does not address.	Reduces participation eligibility to 120,000 therms/year and eliminates 10% market cap.
Unbundle Utility Interstate Capacity Costs for Core Customers	No	Unbundles all interstate capacity for CTA customers. Stranded costs allocated 50/50 between core transport and core sales.	Unbundles all interstate capacity for CTA customers. Stranded costs allocated 50/50 between core/noncore (with cap) until 12/31/01; and within core class after 1/1/02.
Unbundle Utility Storage Costs for Core Customers	Unbundle 50% of core injection and inventory storage reservation for CTA customers.	Same as Interim.	Unbundle all storage costs (associated with non-reliability and reliability storage for CTA customers) subject to certain caps.
Eliminate Core Subscription Service	Does not address.	Does not address.	Yes
Separate Costs and Rates for Core Utility Services. Treat Utility Core Procurement Departments as Any Other Utility Customer	Core procurement subject to same rules and penalties as noncore for monthly, OFO and winter balancing, except winter flowing supply requirements continue to apply to core.	Same as Interim.	Core procurement subject to same rules and penalties as noncore.

Comparison of Comprehensive, Interim, and Post Interim Settlements in I.99-07-003

CPUC IDENTIFIED MOST PROMISING OPTIONS	INTERIM SETTLEMENT	POST INTERIM PROPOSAL	COMPREHENSIVE SETTLEMENT
INFORMATION			
Provide Real-Time, Customer-Specific Information	No change to current system.	No change to current system.	Offers noncore customers real-time access; provides for daily customer data.
Provide Details of Completed Transactions	No change to current system.	No change to current system.	Adds information regarding open season contracts.
Establish Secondary Market Via a Utility Electronic Bulletin Board	Yes	Yes	Yes -- Also includes a third party auctioneer, ALTRA, for imbalance trading.
Provide pipeline operator demand forecasts by customer class	Yes	Yes	Yes
REVENUE CYCLE SERVICES			
Provide for Competitive Metering Technologies	Does not address.	Does not address.	Customer meter ownership and add-on pilot program through 12/31/02.
Provide Competitive Billing Options to Customers Similar to Those Offered in the Electric Industry	Does not address.	Does not address.	Yes
Other Relevant Issues (not identified as "Most Promising Options")			
Creation of Pools for Transmission	Creates receipt point pools.	Creates receipt point pools.	Creates both receipt point and city gate pools.
Provide for Wheeler Ridge Expansion	Yes -- Automatic trigger on expansion during Interim period.	Same as Interim.	Does not address.
Eliminate Core contribution to traditional ITCS	No	Yes -- Effective 1/1/02 Noncore will bear 75% of costs SoCalGas will bear 25% of the costs of traditional ITCS.	Yes -- Effective 1/1/2002, Noncore will bear full costs of traditional ITCS.