

PRELIMINARY STATEMENT
PART X
GLOBAL SETTLEMENT

Sheet 1

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A. GENERAL

Pursuant to D.94-07-064, the Global Settlement establishes ratemaking mechanisms addressing the following matters:

1. The treatment of excess gas and transition costs associated with Pacific Interstate Transmission Company (PITCO), and Pacific Offshore Pipeline Company (POPCO). (See Section B.)
2. Cost Allocation. (See Section C.)

The term of the Global Settlement (Global Settlement Period) shall be either from January 1, 1994 through December 31, 1998 for PITCO/POPCO provisions, or from August 1, 1994 through July 31, 1999 for provisions dealing with cost allocation including discounting and throughput.

B. PITCO/POPCO Excess Gas and Transition Costs

1. Definitions

- a. PITCO excess gas costs are those costs associated with long-term gas supply contracts entered into by the Utility with Pacific Interstate Transmission Company (PITCO) which exceed the Utility's adopted weighted average cost of gas (WACOG) (excluding the cost of PITCO/POPCO supplies, Federal offshore supplies, Enron Bank, ARCO, and Meridian long-term contracts, and other California supplies).
- b. POPCO excess gas costs are those costs associated with long-term gas supply contracts entered into by the Utility with Pacific Offshore Pipeline Company (POPCO) which exceeds the Utility's WACOG (excluding the cost of PITCO/POPCO supplies, Federal offshore supplies, Enron Bank, ARCO, and Meridian long-term contracts) plus the average cost of the Utility's El Paso and Transwestern interstate pipeline capacity reserved for core customers.
- c. PITCO/POPCO transition costs are buyout/buydown payments that PITCO or POPCO makes to third party gas suppliers and pipeline companies (including reasonable financing costs) and accelerated amortization of PITCO/POPCO assets.

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(Continued)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 2917
DECISION NO. 00-04-060

ISSUED BY
William L. Reed
Vice President
Chief Regulatory Officer

(TO BE INSERTED BY CAL. PUC)
DATE FILED May 19, 2000
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PART X
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(Continued)

B. PITCO/POPCO Excess Gas and Transition Costs (Continued)

2. All PITCO/POPCO excess gas and transition costs will be recorded to the PITCO/POPCO Transition Cost Tracking Account (PPTCA) and will be included as an annual revenue component over a five-year period, beginning January 1, 1994, to recover these costs according to the allocation percentages contained in Section B.3. Such allocation of costs among customer classes will be on an equal cents-per-therm basis.
 - a. In recognition of the fact that the effective date of the Global Settlement occurred after January 1, 1994, an amount equal to prorated annual amount of adopted PITCO/POPCO excess gas costs (excluding F&U but including interest) contained in current rates between January 1, 1994 and the effective date of the Global Settlement will be credited to the PPTCA.
 - b. Authorized and recorded (if any) PITCO/POPCO costs (including interest) recorded during this period will be removed from the PITCO/POPCO Excess Cost Account (PPECA). Any recorded excess PITCO/POPCO costs removed from the PPECA will be debited (with interest) to the PPTCA as of the date of the Global Settlement.
3. PITCO/POPCO excess gas and transition costs shall be allocated to shareholders at the following percentages, dependent upon the total amount of these costs, with the remainder allocated to ratepayers as set forth in Section B.2.:

<u>Total PITCO/POPCO Excess Gas and Transition Costs</u>	<u>Percentage Allocated To Shareholders</u>
\$0 - \$150,000,000	0%
\$150,000,001 - \$250,000,000	22%
\$250,000,001 - \$650,000,000	27.5%
\$650,000,001 - \$900,000,000	50%
Over \$900,000,000	100%

4. The amount of PITCO/POPCO excess gas and transition costs allocated to ratepayers shall not exceed \$112 million (including interest) in any one year. If the amount to be recovered in rates exceeds \$112 million per year, or \$560 million over five years, the unamortized balance shall be recovered as soon as possible in the years subsequent to 1998, subject to the \$112 million cap.
5. The Utility shall receive interest on the unamortized portion of costs allocated to ratepayers at a rate approved by the Commission. The Utility shall apply the same interest rate on customer payments that exceed excess gas and transition costs which the Utility has paid.

(Continued)

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PART X
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(Continued)

B. PITCO/POPCO Excess Gas and Transition Costs (Continued)

6. The Utility will request Commission approval of the value of any facilities owned by PITCO/POPCO which are transferred to an independent third party in consideration for settlement of a buyout, buydown, or accelerated depreciation of PITCO/POPCO assets.
7. Shareholders will be able to recover, without reasonableness review, subject to the sharing mechanism percentage for excess costs, amounts paid for PITCO or POPCO gas purchased up through December 31, 1998.
8. Shareholders will be solely at risk for any excess costs above market prices for any gas purchased from PITCO or POPCO after December 31, 1998.
9. Any individual customer may negotiate with the Utility to accelerate their share of PITCO/POPCO excess gas and transition costs in order to have these costs eliminated from their rates on an accelerated basis as follows:
 - a. The Utility shall negotiate a prepayment equal to the product of the known or expected reduction in rates times a reasonable estimate of the volume likely to be used by the customer during the period, discounted by the interest rate authorized by the Commission for PITCO/POPCO costs.
 - b. Alternatively, the customer may prepay any amount, based on its own estimate of what its total obligation will be. The Utility shall treat such prepayment as a credit to the customer's account, and shall draw upon this credit for that portion specified by the customer for their bill. The credit shall accrue interest at the rate set forth in Section 6.5 of this Preliminary Statement. When the credit is fully used, the customer's rate will return to the level it would have been in the absence of the prepayment.
 - c. Cogenerators will be provided with information regarding any UEG's election of a prepayment option and will be offered the same terms adjusted based on the negotiation of the cogeneration customer's throughput. Cogenerators will not be allowed to receive the benefit of a reduced rate without prepayment of these costs.

C. Cost Allocation

1. The Utility will calculate rates for the five year Global Settlement Period, effective August 1, 1994 through July 31, 1999, for cost allocation, based on 1991 actual throughput subject to the following adjustments:
 - a. To reflect normal temperature conditions for the core market.

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Sheet 4

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(Continued)

C. Cost Allocation (Continued)

1. (Continued)

- b. The transfer of UEG loads from Long Beach wholesale service to retail service.
 - c. The addition of Southwest Gas as a wholesale customer.
 - d. Core to noncore transfers.
2. The Utility will calculate the variance between forecasted and actual noncore and wholesale revenues and record such variance to the Noncore Cost/Revenue Memorandum Account (NCRMA). Such calculation will exclude Enhanced Oil Recovery (EOR) and unbundled storage revenues.
- a. The Utility shall retain 100% of the annual variance applicable only for cases where actual revenues exceed forecasted revenues, up to the amount of the annual noncore revenue variance cap, which is as follows for the Global Settlement Period:

Year 1: \$11,000,000
 Year 2: \$13,000,000
 Year 3: \$15,000,000
 Year 4: \$17,000,000
 Year 5: \$19,000,000

- b. If at the end of any year, the variance, as measured per Section C.2.a., exceeds the annual variance cap for that year, the Utility shall credit 87.5% of the excess to the cost of service in the following year.
3. The Utility shall be solely at risk for any under-recovery of the forecasted noncore revenue requirement for each year of the Global Settlement Period. No reduction in the forecast shall be made for bypass or discount shortfalls to avoid bypass, excluding the EOR market.
4. During and subsequent to the Global Settlement Period, the Utility shall be at risk for any noncore discount shortfalls. If the Commission substantially changes the method of setting rates for noncore customers, the Utility may request a waiver of this provision.
5. The EOR and Noncore Storage Balancing accounts will remain in effect during the Global Settlement Period.
6. No exit fees of any kind will be charged to customers who leave the Utility system during the Global Settlement Period.

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