

ALLOCATION AGREEMENT

This Allocation Agreement is entered into as of June 24, 2003 by and between the Attorney General of the State of California, the Governor of the State of California, the California Department of Water Resources (“CDWR”), the California Public Utilities Commission (“CPUC”), the California Electricity Oversight Board (“CEOB”), the Attorney General of the State of Washington (“Washington AG”), the Attorney General of the State of Oregon (“Oregon AG”), the Attorney General of the State of Nevada (“Nevada AG”), the City of Los Angeles, the City of Long Beach (“Long Beach”), Pacific Gas and Electric Co. (“PG&E”), Southern California Edison (“Edison”), and settlement class and subclass representatives Thomas L. French, William P. Bower, Continental Forge Company, Frank and Kathleen Stella, Douglas and Valerie Welch, Andrew and Andrea Berg, Gerald J. Marcil, John Clement Molony, SierraPine, Ltd., United Church Retirement Homes of Long Beach, Inc., doing business as Plymouth West, Long Beach Brethren Manor, Robert Lamond, and John and Jennifer Frazee (collectively, the “Settling Parties”).

RECITALS

WHEREAS, the Settling Parties have entered into a Master Settlement Agreement dated June 16, 2003 (the “MSA”) with El Paso Corporation, El Paso Natural Gas Company, and El Paso Merchant Energy, L.P. (collectively, “El Paso”) in which the Settling Parties agreed in principle to settle various claims arising out of the California energy crisis in 2000 and 2001, subject to all necessary regulatory, judicial, commission and board approvals;

WHEREAS, as set forth in more detail in the MSA, El Paso will deposit into an Escrow Account for the benefit of the Settling Parties cash consideration composed of: (a) \$78,590,070 upon the execution of an Escrow Agreement; (b) proceeds of the sale of 26,371,308 shares of El Paso Corporation common stock, to be sold at the Settling Parties’ direction following effectiveness of a shelf registration statement permitting issuance and sale of the shares; (c) \$243,229,464 within 180 days after execution of the MSA; and (d) \$2 million on or before the Effective Date of the MSA (the “Up-Front Consideration”);

WHEREAS, in addition to the foregoing consideration, El Paso will make Deferred Payments totaling \$875,626,072 in 40 equal semi-annual installments over a period of 20 years commencing on July 1, 2004, subject to acceleration to 15 years if El Paso Corporation achieves Investment Grade, and subject to certain prepayment options by El Paso (collectively, the “Deferred Consideration”);

WHEREAS, in addition to the foregoing consideration, El Paso Merchant Energy, L.P. will reduce the price of the Original Contract by \$125 million between the date of execution of the MSA and the expiration of the Original Contract on December 31, 2005 (the “Contract Reduction,” and, together with the Up-Front Consideration and the Deferred Consideration, the “Consideration”); and

WHEREAS, after extensive discussions, negotiations, research, analysis, information exchanges, and consultations with experts concerning their respective damages, the Settling Parties have agreed among themselves to allocate the Consideration as set forth herein;

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL COVENANTS CONTAINED HEREIN, THE SETTLING PARTIES HEREBY AGREE AS FOLLOWS:

1. **Definitions.** Except as specifically defined herein, capitalized terms shall have the same meanings as they have been given in the MSA.

2. **Timing of Payment.**

(a) **Up-Front Consideration.** In the event that any of the Up-Front Consideration is not deposited into the Escrow Account by El Paso prior to the Effective Date, all Settling Parties shall receive *pro rata* shares of the Up-Front Consideration deposited by El Paso into the Escrow Account, based on their respective allocations of Up-Front Consideration, and shall continue to receive *pro rata* shares of the additional deposits by El Paso of Up-Front Consideration, up to the full amount of their respective allocations.

(b) **Deferred Consideration.** All Deferred Consideration allocated hereunder shall be paid out in installments over the same time period (*e.g.*, if El Paso pays the Deferred Consideration over the full 20 years, all allocations of Deferred Consideration provided for herein shall be paid out over the same 20 year time period; if the payout of Deferred Consideration is accelerated to 15 years, all allocations of Deferred Consideration provided for herein shall be paid out over 15 years; if El Paso exercises a prepayment option under Paragraph 4.1(d)(ii) of the MSA, the unpaid balance of all allocations of Deferred Consideration shall all be paid based on the Discounted Amount of the Deferred Consideration).

3. **Fixed Allocations.** The Nevada AG, Oregon AG, Washington AG, and Long Beach will receive the following Up-Front Consideration and Deferred Consideration (the “Fixed Allocations”), plus any interest thereon payable under Paragraph 4.5 of the MSA:

| Settling Party | Up-Front Consideration | Deferred Consideration | Total Up-Front and Deferred Consideration |
|-----------------------|-------------------------------|-------------------------------|--|
| Nevada AG | \$16,263,386 | \$31,984,360 | \$48,247,746 |
| Oregon AG | \$5,316,877 | \$10,456,425 | \$15,773,302 |
| Washington AG | \$7,193,420 | \$14,146,929 | \$21,340,349 |
| Long Beach (City) | \$2,513,432 | \$4,943,038 | \$7,456,470 |

| Settling Party | Up-Front Consideration | Deferred Consideration | Total Up-Front and Deferred Consideration |
|--|------------------------|------------------------|---|
| Long Beach Energy Department Core Gas Ratepayers | \$2,513,432 | \$4,943,038 | \$7,456,470 |

(a) **NV, OR, and WA AGs Consideration.** The Consideration allocated to the Nevada, Oregon, and Washington AGs shall be used for the benefit of energy consumers in their respective states at the sole discretion of these AGs. At these AGs' discretion, such benefit may be direct or indirect. Up to twelve percent (12%) of the total amount of the Consideration allocated to the Oregon and Washington AGs may be used by them to pay for costs, attorneys' fees and administrative expenses incurred in their respective investigations, settlement negotiations, and implementation of the MSA.

(b) **Long Beach Energy Dept. Consideration.** The Consideration allocated to Long Beach Energy Department Core Gas Ratepayers shall be distributed by the Long Beach Energy Department to its core gas ratepayers in the form of rate reductions, credits, or rebates. The Consideration allocated to Long Beach Energy Department Core Gas Ratepayers shall (together with the Percentage Allocations set forth in Paragraph 4) bear a *pro rata* share of attorneys' fees and litigation expenses allowed pursuant to Paragraph 6 below.

4. **Percentage Allocations.** After deduction of the Fixed Allocations, and after payment of allowed attorneys' fees and litigation expenses as set forth in Paragraph 6 below, the remainder of the Up-Front Consideration and Deferred Consideration (and any interest payable under Paragraph 4.5 of the MSA) shall be allocated as follows:

| Ratepayer/Damage Group | Service Territory | Percentage of Up-Front and Deferred Consideration | Subject to CPUC Jurisdiction? |
|------------------------|------------------------------------|---|-------------------------------|
| Core Gas | PG&E | 6.52496578% | Yes |
| Core Gas | Southern Cal. Gas Co. | 3.06461091% | Yes |
| Core Gas | San Diego Gas & Electric ("SDG&E") | 2.51072269% | Yes |
| Core Gas | Southwest Gas Corp. | 0.43578182% | Yes |
| Non-Core Gas | Statewide | 16.50344942% | No |
| Electricity | CDWR (Statewide) | 27.11161263% | No |
| Electricity | PG&E | 17.49841938% | Yes |
| Electricity | Edison | 16.32155310% | Yes |
| Electricity | SDG&E | 5.02019624% | Yes |

| Ratepayer/Damage Group | Service Territory | Percentage of Up-Front and Deferred Consideration | Subject to CPUC Jurisdiction? |
|-------------------------------|--|--|---|
| Electricity | Los Angeles Dept. of Water & Power ("LADWP") | 1.90156146% | No |
| Electricity | Municipal electric utilities (other than LADWP) and investor-owned electric utilities (other than PG&E, Edison, and SDG&E) | 3.10712656% (subject to adjustment per Para. 4(e)) | Municipal electric utilities - No; Investor-owned electric utilities - Yes |
| Total | -- | 100% | -- |

(a) **No Priority.** Nothing in this Paragraph 4, and in particular nothing in the arithmetic method of deducting Fixed Allocation percentages first, leaving a net amount of Consideration to which Allocation percentages apply, shall create or shall be construed to create a creditor's priority in the event that El Paso ever files for bankruptcy protection or in case of any other Event of Default.

(b) **Distributions to Gas and Electric Ratepayers of CPUC Jurisdictional Utilities.** The Percentage Allocations identified in Paragraph 4 above as subject to CPUC jurisdiction will be distributed by CPUC jurisdictional utilities, for the benefit of their core natural gas and electricity ratepayers, in the form of refunds, disbursements, or credits against any costs or obligations incurred by ratepayers or by the utilities on behalf of ratepayers. The precise means of distribution will be determined by the CPUC, consistent with applicable law, pursuant to CPUC ratemaking and accounting policies, procedures, and orders that have been or will be established by the CPUC. Direct access electricity customers of CPUC jurisdictional utilities will be treated under the same principles as bundled electricity customers. Edison waives any financial interest in the Percentage Allocations to ratepayers in its service territory.

(c) **CDWR Consideration**

(i) **Contract Reduction.** The Contract Reduction shall be allocated exclusively to CDWR, and not to any other Settling Party, except as expressly set forth in Paragraph 5(c) below.

(ii) **Use of Consideration.** All Consideration received by CDWR pursuant to the MSA and this Allocation Agreement, including the Contract Reduction, Up-Front Consideration, and Deferred Consideration, shall be used solely to reduce amounts which contribute to CDWR's revenue requirements. The allocation among electricity ratepayer groups (including direct access electricity customers) of the

benefits derived from the corresponding reductions in revenue requirements shall be determined by the CPUC, consistent with applicable law respecting CDWR’s revenue requirements, pursuant to CPUC ratemaking and accounting policies, procedures, and orders that have been or will be established by the CPUC.

(iii) **Default Adjustment.** If as a result of an Event of Default under the MSA:

(A) the Discounted Amount, upon acceleration under Paragraph 9.1 of the MSA, is not recovered in full with interest at the rate set forth in Paragraph 4.5 of the MSA, or

(B) any portion of the Discounted Amount is treated in a bankruptcy proceeding as being unsecured under Section 506(a) of the Bankruptcy Code and such unsecured portion is not thereafter paid in full with interest at the rate set forth in Paragraph 4.5 of the MSA,

and CDWR’s receipt of the Contract Reduction has resulted in CDWR receiving, as of the date the adjustment provided for in this Paragraph is proposed to become effective, more than 33.38749547% of all Consideration, then all Consideration that would absent this Paragraph thereafter be paid to CDWR shall instead be redistributed ratably among the Parties set forth in the table below until such time as using a discount rate of 7.86196381773051% to calculate present value, the net present value of all Consideration received, including any interest paid pursuant to Paragraph 4.5 of the MSA, does not exceed the percentages set forth in such table. CDWR shall be entitled to retain all Consideration it has received and shall not be required to return any Consideration it has received or make any payment to effectuate such adjustment. The adjustments contemplated by this Paragraph shall not under any circumstances increase or reduce any Fixed Allocation.

| Ratepayer/Damage Group | Service Territory | Present Value of Up-Front Consideration, Deferred Consideration, and Contract Reduction |
|-------------------------------|------------------------------------|--|
| Core Gas | PG&E | 5.96314898% |
| Core Gas | Southern Cal. Gas Co. | 2.80073981% |
| Core Gas | San Diego Gas & Electric (“SDG&E”) | 2.29454283% |
| Core Gas | Southwest Gas Corp. | 0.39825986% |
| Non-Core Gas | Statewide | 15.08245880% |
| Electricity | CDWR (Statewide) | 33.38749547% |
| Electricity | PG&E | 15.99175921% |
| Electricity | Edison | 14.91622423% |
| Electricity | SDG&E | 4.58794407% |

| Ratepayer/Damage Group | Service Territory | Present Value of Up-Front Consideration, Deferred Consideration, and Contract Reduction |
|-------------------------------|--|--|
| Electricity | Los Angeles Dept. of Water & Power (“LADWP”) | 1.73783199% |
| Electricity | Municipal electric utilities (other than LADWP) and investor-owned electric utilities (other than PG&E, Edison, and SDG&E) | 2.83959475% (subject to adjustment per Para. 4(e)) |
| Total | -- | 100% |

(d) **Distribution to Non-Core Gas Customers.** Non-core gas subclass members (*i.e.*, commercial and industrial non-core gas customers, excluding those who purchased gas for resale or for generation of electricity for resale) will be required to submit claims to receive a pro rata share of the Consideration allocated to non-core gas customers, based on each claimants’ actual damages, calculated in the manner set forth in Exhibit A hereto. California municipalities and California state and municipal departments and agencies that are also non-core gas customers (excluding those that purchased gas for resale or for generation of electricity for resale), may also submit such claims, and may share in the same Consideration on a pro rata basis. If, after all timely claims have been received and processed, it appears that the Consideration allocated to non-core gas customers exceeds the sum of such claimants’ actual damages so calculated, then such claimants shall continue to receive payments from the Consideration allocated to non-core gas customers only until such time as they have recovered in full their actual damages. Any remaining Consideration allocated to non-core gas customers shall be reallocated *pro rata* to the remaining damage groups identified in Paragraph 4 above. Such reallocation shall not increase or reduce any Fixed Allocation.

(e) **Distribution to Customers of Municipal Electric Utilities.** The 3.10712656% Percentage Allocation to customers of California municipal electric utilities (other than LADWP) and investor-owned electric utilities (other than PG&E, Edison, and SDG&E) is based on estimated total damages of \$250 million. Municipal electric utilities (other than LADWP) and investor-owned utilities (other than PG&E, Edison, and SDG&E) will be requested to complete the Municipal Electric Utility Information Request attached hereto as Exhibit B to establish the damages to themselves and/or their ratepayers. Should the total of such damages be greater or less than \$250 million, the Percentage Allocations for all Ratepayer/Damage Groups in Paragraph 4 will be recalculated using the same method as was used to derive the Percentage Allocations

shown. Municipal electric utilities receiving allocations of Consideration shall use the Consideration for the benefit of their respective ratepayers, as they shall determine pursuant to their ordinary ratemaking processes.

5. **Refund Proceeding and LADWP.** LADWP, on the one hand, and the California Attorney General, CPUC, CDWR, CEOB, PG&E, and Edison, on the other hand, will attempt to settle the electricity refund claim asserted against LADWP in the Refund Proceeding. The Settling Parties do not waive any rights, claims, or defenses in the Refund Proceeding.

6. **Attorneys' Fees and Costs.**

(a) **FERC, Federal Court, and AG Proceedings.** SCE, PG&E, CPUC, California Attorney General, CDWR, and the City of Los Angeles will be fully reimbursed their attorneys' fees and costs (including expert fees), incurred in connection with the following proceedings: (i) the FERC Natural Gas Proceeding; (ii) the AG Subpoena; (iii) the AG Draft Complaint; (iv) the AG Investigation; (v) *El Paso Natural Gas Company*, FERC Docket No. RP97-287-010 (relating to the El Paso-Dynegy contracts); (vi) *Public Utilities Commission of the State of California, et al. v. FERC*, D.C. Cir. Nos. 99-1390, et al. (petitions for review of the FERC Dynegy orders); (vii) *El Paso Natural Gas Company*, FERC Docket No. RP97-287-041 (relating to the El Paso-Enron contracts); and (viii) the Refund Proceeding, but only to the extent that the work was utilized in the assessment of damages in negotiations and drafting of the MSA and the Allocation Agreement. In addition, SCE, PG&E, CPUC, the California Attorney General, CDWR, and the City of Los Angeles shall also be reimbursed for any further attorneys' fees and costs incurred in: (i) the negotiation and drafting of the MSA and the exhibits thereto, the Allocation Agreement, and the Designated Representative Agreement; (ii) securing the approvals and dismissals required by the MSA (including prosecuting or defending any appeals therefrom), including approval of the FERC Settlement and Federal Court approval of the Stipulated Judgment; (iii) performing any ministerial acts required by the MSA; and (iii) performing duties as Steering Committee members pursuant to the Designated Representative Agreement. Such fees and costs shall not, in the aggregate, exceed the following amounts: SCE - \$10.75 million; PG&E - \$6 million; CPUC - \$3 million; California Attorney General - \$5 million; CDWR - \$2.1 million; City of Los Angeles - \$375,000. In addition, the County of Los Angeles will be reimbursed its attorneys' fees and costs incurred in connection with the FERC Natural Gas Proceeding in an amount that shall not exceed \$150,000. If the Settling Parties are unable to agree on the amounts that should be allowed, the Federal Court or the Special Master appointed pursuant to the Stipulated Judgment shall make such determinations. All such attorneys' fees and costs for work performed prior to the Effective Date shall be paid out of the Up-Front Consideration.

(b) **Class Actions.** Class Counsel may submit one or more applications to the Class Action Court for attorneys' fees and costs relating to the Class Actions, the total of which shall not exceed \$60 million. All attorneys' fees and costs awarded by the Class Action Court shall be paid out of the Up-Front Consideration.

7. **Monetization Approvals Required.** None of the Consideration allocated as set forth above shall be Monetized (within the meaning of Paragraph 1.80 of the MSA) or sold, pledged or otherwise assigned (as provided in Paragraph 8.3(c) of the MSA) by any Settling Claimant, or by the Settling Claimants acting collectively, and no agreement providing for any such Monetization, sale, pledge, or assignment shall be entered into, prior to the second anniversary of the Effective Date, without the unanimous consent of the Settling Parties and the approval of the Class Action Court and the CPUC. Subsequent to second anniversary of the Effective Date, the Fixed Allocations and Percentage Allocations may be Monetized, sold, pledged, or otherwise assigned only with the specific approvals set forth below:

| Ratepayer/Damage Group | Service Territory | Approvals Required |
|--|--|---|
| Core Gas | PG&E | Class Action Court, CPUC, PG&E |
| Core Gas | Southern Cal. Gas Co. | Class Action Court, CPUC |
| Core Gas | SDG&E | Class Action Court, CPUC |
| Core Gas | Southwest Gas Corp. | Class Action Court, CPUC |
| Non-Core Gas | Statewide | Class Action Court |
| Electricity | CDWR (Statewide) | Class Action Court, CDWR |
| Electricity | PG&E | Class Action Court, CPUC, PG&E |
| Electricity | Edison | Class Action Court, CPUC, Edison |
| Electricity | SDG&E | Class Action Court, CPUC |
| Electricity | Los Angeles Dept. of Water & Power ("LADWP") | Class Action Court, City of Los Angeles |
| Electricity | Other Municipal Electric Utilities | Class Action Court |
| Nevada AG | -- | Nevada AG |
| Oregon AG | -- | Oregon AG |
| Washington AG | -- | Washington AG |
| Long Beach | -- | Long Beach |
| Long Beach Energy Department Core Gas Ratepayers | -- | Class Action Court, Long Beach |

8. **Tax Issues.** The Settling Parties acknowledge that in the event that a competent tax authority successfully asserts taxes (including, but not limited to, income tax, property tax, sales and use tax, excise tax, and document transfer tax) against a utility subject to CPUC jurisdiction prior the utility's actual receipt of the payments or transfers of the Consideration upon which the asserted taxes are based, that such utility may seek

authority from the CPUC to: (1) allow the affected utility to adjust the distribution of the Consideration to the ratepayers within its service territory so that the affected utility is immediately made whole and indemnified for the cost of the asserted taxes; or (2) provide for the recovery of the cost associated with the tax liability in the utility's next ratemaking application before the CPUC.

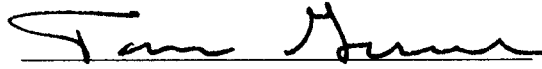
9. **No CPUC Prejudgment.** The CPUC cannot prejudge any allocation issue, tax issue, or any other issue that may be subject to CPUC determination, and therefore limits its participation in the MSA and this Allocation Agreement pursuant to that principle. The CPUC will not participate with respect to attorneys fees issues in the Class Actions.

10. **Execution.** This Allocation Agreement may be executed by counsel for the Settling Parties. This Allocation Agreement may be executed in counterparts, and signatures may be provided by facsimile.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK/
SIGNATURES FOLLOW ON NEXT PAGE]

ACCEPTED AND AGREED:

Dated: June 25, 2003



Tom Greene
Senior Assistant Attorney General, on behalf of the
People of the State of California, ex rel., Bill Lockyer,
Attorney General

Dated: June __, 2003

William Kissinger
Senior Deputy Legal Affairs Secretary
Office of the Governor of the State of California
and on behalf of the California Department of Water
Resources and the California Electricity Oversight Board

Dated: June __, 2003

Harvey Y. Morris
Attorney for California Public Utilities Commission

Dated: June __, 2003

Roger Peters, Senior Vice President and General Counsel
Pacific Gas and Electric Co.

Dated: June __, 2003

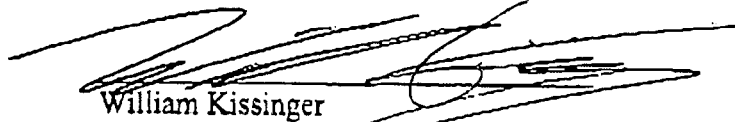
Stephen Pickett
General Counsel
Southern California Edison

ACCEPTED AND AGREED:

Dated: June __, 2003

Tom Greene
Senior Assistant Attorney General, on behalf of the
People of the State of California, ex rel., Bill Lockyer,
Attorney General

Dated: June 17, 2003


William Kissinger
*Senior Deputy Legal Affairs Secretary
Office of the Governor of the State of California
and on behalf of the California Department of Water
Resources and the California Electricity Oversight Board*

Dated: June __, 2003

Harvey Y. Morris
Attorney for California Public Utilities Commission

Dated: June __, 2003

Roger Peters, Senior Vice President and General Counsel
Pacific Gas and Electric Co

Dated: June __, 2003

Stephen Pickett
General Counsel
Southern California Edison

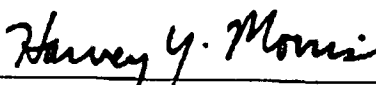
ACCEPTED AND AGREED:

Dated: June __, 2003

Tom Greene
Senior Assistant Attorney General, on behalf of the
People of the State of California, ex rel., Bill Lockyer,
Attorney General

Dated: June __, 2003

William Kissinger
Senior Deputy Legal Affairs Secretary
Office of the Governor of the State of California
and on behalf of the California Department of Water
Resources and the California Electricity Oversight Board

Dated: June 16, 2003

Harvey Y. Morris
Attorney for California Public Utilities Commission

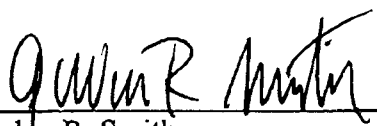
Dated: June __, 2003

Roger Peters, Senior Vice President and General Counsel
Pacific Gas and Electric Co.

Dated: June __, 2003

Stephen Pickett
General Counsel
Southern California Edison

Dated: June __, 2003



 Gordon R. Smith
 President and Chief Executive Officer
Pacific Gas and Electric Co.

Dated: June __, 2003

 Stephen Pickett
 General Counsel
Southern California Edison

Dated: June __, 2003

 Barry Himmelstein
 LIEFF, CABRASER, HEIMANN & BERNSTEIN, LLP
*Lead Counsel for the Class and the Core Natural Gas
 Subclass (Subject to Class Action Court Approval)*

Dated: June __, 2003

 Walter J. Lack
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*Lead Counsel for the Class and the Non-Core Natural
 Gas Subclass (Subject to Class Action Court Approval)*

Dated: June __, 2003

 Carole E. Handler
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*Lead Counsel for the Class and the Electricity Subclass
 (Subject to Class Action Court Approval)*

Dated: June __, 2003

 M. Brian McMahon
 LAW OFFICES OF M. BRIAN McMAHON
Attorneys for the City of Long Beach

ACCEPTED AND AGREED:

Dated: June __, 2003

Tom Greene
Senior Assistant Attorney General, on behalf of the
People of the State of California, ex rel., Bill Lockyer,
Attorney General

Dated: June __, 2003

William Kissinger
Senior Deputy Legal Affairs Secretary
Office of the Governor of the State of California
and on behalf of the California Department of Water
Resources and the California Electricity Oversight Board

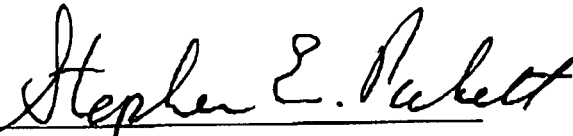
Dated: June __, 2003

Harvey Y. Morris
Attorney for California Public Utilities Commission

Dated: June __, 2003

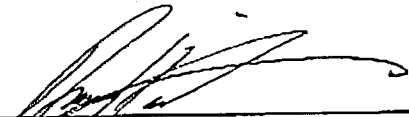
Roger Peters, Senior Vice President and General Counsel
Pacific Gas and Electric Co.

Dated: June __, 2003



Stephen Pickett
General Counsel
Southern California Edison

Dated: June 24, 2003



 Barry Himmelstein
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*Lead Counsel for the Class and the Core Natural Gas
 Subclass (Subject to Class Action Court Approval)*

Dated: June __, 2003

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Dated: June __, 2003

 Carole E. Handler
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Dated: June __, 2003

 M. Brian McMahon
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Attorneys for the City of Long Beach

Dated: June __, 2003

 Terree Bowers, Chief Deputy
*Los Angeles City Attorney's Office
 Attorneys for City of Los Angeles*

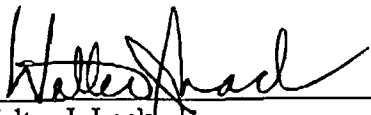
Dated: June __, 2003

 Tina Kondo
 Senior Assistant Attorney General
State of Washington

Dated: June __, 2003

Barry Himmelstein
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*Lead Counsel for the Class and the Core Natural Gas
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Dated: June 18, 2003



Walter J. Lack
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Dated: June __, 2003

Carole E. Handler
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(Subject to Class Action Court Approval)*

Dated: June __, 2003

M. Brian McMahon
LAW OFFICES OF M. BRIAN McMAHON
Attorneys for the City of Long Beach

Dated: June __, 2003

Brad N. Baker
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O'DONNELL & SHAEFFER, LLP
Attorneys for City of Los Angeles

Dated: June __, 2003

Tina Kondo
Senior Assistant Attorney General
State of Washington

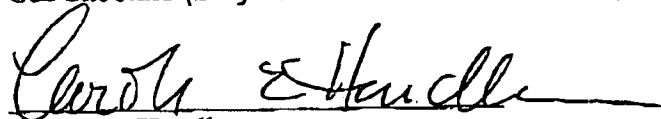
Dated: June __, 2003

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*Lead Counsel for the Class and the Core Natural Gas
Subclass (Subject to Class Action Court Approval)*

Dated: June __, 2003

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*Lead Counsel for the Class and the Non-Core Natural
Gas Subclass (Subject to Class Action Court Approval)*

Dated: June 16, 2003


Carole E. Handler
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*Lead Counsel for the Class and the Electricity Subclass
(Subject to Class Action Court Approval)*

Dated: June __, 2003

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LAW OFFICES OF M. BRIAN McMAHON
Attorneys for the City of Long Beach

Dated: June __, 2003

Brad N. Baker
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O'DONNELL & SHAEFFER, LLP
Attorneys for City of Los Angeles

Dated: June __, 2003

Tina Kondo
Senior Assistant Attorney General
State of Washington

Dated: June __, 2003

Joshua Bar-Lev
Chief Counsel
Generation, Transmission & Supply
Law Department
Pacific Gas and Electric Co.

Dated: June __, 2003

Stephen Pickett
General Counsel
Southern California Edison

Dated: June __, 2003

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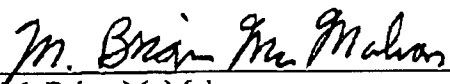
Dated: June __, 2003

Walter J. Lack
ENGSTROM, LIPSCOMB & LACK
*Lead Counsel for the Class and the Non-Core Natural
Gas Subclass (Subject to Class Action Court Approval)*

Dated: June __, 2003

Carole E. Handler
O'DONNELL & SHAEFFER, LLP
*Lead Counsel for the Class and the Electricity Subclass
(Subject to Class Action Court Approval)*

Dated: June 16, 2003


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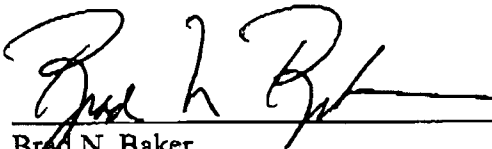
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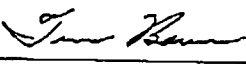
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Beach Brethren Manor, Robert Lamond, City of Los
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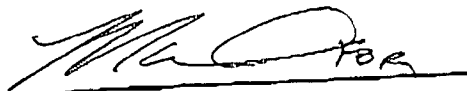
Dated: June , 2003

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EXHIBIT A

Industrial Claims Procedure

Prepared by

The Brattle Group

May 7, 2003

Industrial Claims Procedure - General Approach

- For each industrial customer:

$$\text{Monthly Damage Claim} = \text{Customer's Actual Monthly Gas Supply Cost} - \text{Estimates of the "Competitive" Gas Supply Cost}$$

- These calculations are done for each of the 15 months, March 2000 through May 2001, and damages are totaled over the 15 months – representing the customer's **Total Damage Claim**.
- For all of California (south and north combined), compute the **Ratio** of each industrial customer's **Total Damage Claim** to the sum of all industrial customers' **Total Damage Claims**. This **Ratio** is the industrial customer's share of the non-core gas settlement amount.
- The industrial customer's settlement amount equals the product of the customer's **Ratio** and the **Total Non-core Gas Settlement Amount**.

Each Non-Core Industrial Customer's Damage Claim

- A customer's monthly gas cost will equal the cost of its gas purchases less both the revenues of its gas sales and any revenues from financial hedges.
- For each region, (south and north), one "competitive" unit (\$/therm) gas cost (reflecting 80% bidweek and 20% daily weighting) will be developed for each month to apply to all types of contracts.
- For non-core customers in SoCalGas and SDG&E's service territory, costs will be measured at SoCalGas' "citygate." For non-core customers in PG&E's service territory, costs will be measured at PG&E's citygate.

Claim Form

- Asks the customer to report monthly gas consumption at its facilities [1].
- Gas purchases [2] and their cost [3] are drawn from the second table, **Gas Purchases**.
- The form also requires the customer to provide gas sales [4] and associated revenues [5] as well as the gains [6] and losses [7] associated with financial hedges.
- Documentation for customer to provide:
 - ↗ Monthly invoices from the local gas distribution company (e.g., PG&E, SoCalGas, SDG&E) which indicate the quantity of gas delivered to the customer's facilities.
 - ↗ Invoices that a customer sent out for sales of natural gas it made to others.
 - ↗ Documentation of financial hedging gains or losses.

**XYZ Industrial Company
Claim Form**

| | [1] | [2] | [3] | [4] | [5] | [6] | [7] |
|--------|--|-----------------------------------|---------------------------------|-------------------------------|---------------------------------|--|-----|
| | Gas Consumption At Your Facilities <u>Therms</u> | Gas Purchases <u>Therms</u> | Gas Purchases <u>Cost</u> | Gas Sales <u>Therms</u> | Gas Sales <u>Revenues</u> | Financial Hedges Related to Gas Consumption at California Facilities <u>Gains</u> <u>Losses</u> | |
| Mar-00 | 100,000 | 100,000 | 40,000 | 1,000 | 400 | 0 | 0 |
| Apr-00 | 96,000 | 95,500 | 39,110 | 0 | 0 | 0 | 0 |
| May-00 | 110,000 | 110,000 | 46,400 | 0 | 0 | 0 | 0 |
| Jun-00 | 130,000 | 130,200 | 56,090 | 0 | 0 | 0 | 0 |
| Jul-00 | 130,000 | 130,000 | 58,400 | 0 | 0 | 0 | 0 |
| Aug-00 | 140,000 | 139,950 | 64,975 | 0 | 0 | 0 | 0 |
| Sep-00 | 110,000 | 110,100 | 51,252 | 0 | 0 | 0 | 0 |
| Oct-00 | 90,000 | 90,000 | 35,600 | 0 | 0 | 0 | 0 |
| Nov-00 | 90,000 | 90,000 | 52,000 | 0 | 0 | 0 | 0 |
| Dec-00 | 120,000 | 120,000 | 118,000 | 0 | 0 | 0 | 0 |
| Jan-01 | 130,000 | 128,240 | 113,888 | 0 | 0 | 0 | 0 |
| Feb-01 | 120,000 | 118,800 | 109,440 | 2,000 | 800 | 0 | 0 |
| Mar-01 | 110,000 | 111,000 | 93,200 | 0 | 0 | 0 | 0 |
| Apr-01 | 100,000 | 100,425 | 75,468 | 0 | 0 | 0 | 0 |
| May-01 | 110,000 | 110,000 | 98,000 | 0 | 0 | 0 | 0 |

Gas Purchases

- Customer reports the monthly volume and cost associated with each of its supply contracts.
- The customer's total volume and cost is summed over the contracts in the two rightmost columns of the table. These amounts are carried through to the **Claim Form** table, above.
- Documentation for customer to provide:
 - Supply contracts.
 - Monthly invoices from their supplier(s) associated with the amounts in the table.

| XYZ Industrial Company Gas Purchases | | | | | | |
|---|--|--------|---|--------|--------------------------------|---------|
| | Supply Contract #1 Supplier: Producer QRS Term: 1/00-12/00 | | Supply Contract #2 Supplier: ABC Trading Term: 1/00-12/00 | | Total Supply ("Gas Purchases") | |
| | Therms | Cost | Therms | Cost | Therms | Cost |
| Mar-00 | 50,000 | 20,000 | 50,000 | 20,000 | 100,000 | 40,000 |
| Apr-00 | 50,000 | 20,000 | 45,500 | 19,110 | 95,500 | 39,110 |
| May-00 | 50,000 | 20,000 | 60,000 | 26,400 | 110,000 | 46,400 |
| Jun-00 | 50,000 | 20,000 | 80,200 | 36,090 | 130,200 | 56,090 |
| Jul-00 | 50,000 | 20,000 | 80,000 | 38,400 | 130,000 | 58,400 |
| Aug-00 | 50,000 | 20,000 | 89,950 | 44,975 | 139,950 | 64,975 |
| Sep-00 | 50,000 | 20,000 | 60,100 | 31,252 | 110,100 | 51,252 |
| Oct-00 | 50,000 | 20,000 | 40,000 | 15,600 | 90,000 | 35,600 |
| Nov-00 | 50,000 | 20,000 | 40,000 | 32,000 | 90,000 | 52,000 |
| Dec-00 | 50,000 | 20,000 | 70,000 | 98,000 | 120,000 | 118,000 |
| Jan-01 | 50,000 | 20,000 | 78,240 | 93,888 | 128,240 | 113,888 |
| Feb-01 | 50,000 | 20,000 | 68,800 | 89,440 | 118,800 | 109,440 |
| Mar-01 | 50,000 | 20,000 | 61,000 | 73,200 | 111,000 | 93,200 |
| Apr-01 | 50,000 | 20,000 | 50,425 | 55,468 | 100,425 | 75,468 |
| May-01 | 50,000 | 20,000 | 60,000 | 78,000 | 110,000 | 98,000 |

Calculation of Damages Claim

- The table compares a customer's reported monthly usage in the **Claim Form** with the net of the customer's purchases and sales for that month.
 - The customer is asked to explain and document any deviations below 95% or above 105%.
- The customer's monthly natural gas costs are equal to the cost of its gas purchases, less the revenue from its gas sales and the revenue from its financial hedges.
- The monthly cost at a competitive price is the product of the consumption and a monthly competitive price that would be supplied with the form. For a given month, we expect the "competitive" unit price (\$/therm) at the citygate will be the same for all non-core customers of an LDC.
- The monthly damage claim is the difference between the customer's gas costs and the gas cost at a competitive price.
- The total damage claim is the sum of the monthly damage claims and is multiplied by the payout factor to arrive at the adjusted damage claim.

| XYZ Industrial Company Calculation of Damages Claim | | | | | | | Competitive No. CA Unit Prices (\$/Therm) [G] | Competitive So. CA Unit Prices (\$/Therm) [G] | |
|--|---------------------------|--------------------------------------|--|---|--|--|---|---|------|
| | Consumption [A] [1] | Purchase - Sales [B] [2] - [4] | % of Consumption Explained [C] [C] = [A] / [B] | Natural Gas Costs [D] [3] - [5] - [6] | Cost of Gas Consumption At Competitive Price [E] [E] = [A] x [G] | Monthly Damage Claims [F] [F] = [D] - [E] | | | |
| Mar-00 | 100,000 | 99,000 | 101.01% | 39,600 | 27,455 | 12,145 | \$ | 0.27 \$ | 0.26 |
| Apr-00 | 96,000 | 95,500 | 100.52% | 39,110 | 30,269 | 8,841 | \$ | 0.32 \$ | 0.30 |
| May-00 | 110,000 | 110,000 | 100.00% | 46,400 | 35,521 | 10,879 | \$ | 0.32 \$ | 0.31 |
| Jun-00 | 130,000 | 130,200 | 99.85% | 56,090 | 58,537 | 0 | \$ | 0.45 \$ | 0.44 |
| Jul-00 | 130,000 | 130,000 | 100.00% | 58,400 | 61,590 | 0 | \$ | 0.47 \$ | 0.48 |
| Aug-00 | 140,000 | 139,950 | 100.04% | 64,975 | 59,384 | 5,591 | \$ | 0.42 \$ | 0.44 |
| Sep-00 | 110,000 | 110,100 | 99.91% | 51,252 | 48,011 | 3,241 | \$ | 0.44 \$ | 0.52 |
| Oct-00 | 90,000 | 90,000 | 100.00% | 35,600 | 50,314 | 0 | \$ | 0.56 \$ | 0.55 |
| Nov-00 | 90,000 | 90,000 | 100.00% | 52,000 | 49,301 | 2,699 | \$ | 0.55 \$ | 0.53 |
| Dec-00 | 120,000 | 120,000 | 100.00% | 118,000 | 100,790 | 17,210 | \$ | 0.84 \$ | 0.74 |
| Jan-01 | 130,000 | 128,240 | 101.37% | 113,888 | 136,461 | 0 | \$ | 1.05 \$ | 1.03 |
| Feb-01 | 120,000 | 116,800 | 102.74% | 108,640 | 86,964 | 21,676 | \$ | 0.72 \$ | 0.70 |
| Mar-01 | 110,000 | 111,000 | 99.10% | 93,200 | 56,382 | 36,818 | \$ | 0.51 \$ | 0.57 |
| Apr-01 | 100,000 | 100,425 | 99.58% | 75,468 | 72,825 | 2,643 | \$ | 0.73 \$ | 0.58 |
| May-01 | 110,000 | 110,000 | 100.00% | 98,000 | 63,600 | 34,400 | \$ | 0.58 \$ | 0.53 |

[H] Total Damage Claim

\$ 156,143

EXHIBIT B

Municipal Electricity Information Request

Prepared by

The Brattle Group

May 7, 2003

Concept

- As with the IOUs, some “municipal” electric utilities may have overpaid for electricity due to El Paso’s effect on gas-fired generators.
- The CEC identifies 40+ municipals; their 2000 average loads are substantially smaller than the IOUs.
- Intent is to apportion the non-QF electricity-related damages to CERS, the IOUs, and the municipals using estimates of their net short positions.
 - Damages currently apportioned to CERS and IOUs on that basis
 - Damages calculation process will focus on calculating the municipals’ net shorts

California 2000 Electric Utility Retail Deliveries

| Utilities | Total MWh | Hrly Avg. MW |
|---|------------------|---------------------|
| Southern California Edison Company | 83,435,111 | 9,525 |
| Pacific Gas and Electric Company | 81,656,564 | 9,322 |
| Los Angeles Department of Water and Power | 22,141,303 | 2,528 |
| San Diego Gas and Electric Company | 19,012,296 | 2,170 |
| Sacramento Municipal Utility District | 9,618,805 | 1,098 |
| Central Valley Project | 2,702,545 | 309 |
| City of Anaheim | 2,642,338 | 302 |
| Silicon Valley Power | 2,632,122 | 300 |
| Imperial Irrigation District | 2,573,645 | 294 |
| Modesto Irrigation District | 2,231,337 | 255 |
| City of Riverside | 1,795,914 | 205 |
| Turlock Irrigation District | 1,445,604 | 165 |
| City of San Francisco | 1,299,001 | 148 |
| City of Vernon | 1,188,160 | 136 |
| City of Pasadena | 1,157,892 | 132 |
| City of Palo Alto | 1,128,832 | 129 |
| City of Glendale | 1,099,493 | 126 |
| City of Burbank | 1,066,666 | 122 |
| City of Roseville | 945,115 | 108 |
| Pacificorp | 759,573 | 87 |
| City of Redding | 671,448 | 77 |
| Sierra Pacific Power Company | 511,320 | 58 |
| City of Lodi | 448,455 | 51 |

Source: California Energy Commission, http://www.energy.ca.gov/electricity/utility_sales.html

California 2000 Electric Utility Retail Deliveries (cont'd)

| Utilities | Total MWh | Hrly Avg. MW |
|--|-----------|--------------|
| City of Alameda | 369,931 | 42 |
| City of Colton | 297,532 | 34 |
| City of Azusa | 245,578 | 28 |
| Merced Irrigation District | 241,849 | 28 |
| Lassen Municipal Utility District | 136,144 | 16 |
| Southern California Water Company | 134,182 | 15 |
| City of Lompoc | 128,848 | 15 |
| City of Banning | 127,796 | 15 |
| Truckee-Donner Public Utility District | 126,201 | 14 |
| City of Ukiah | 109,404 | 12 |
| Plumas-Sierra Rural Electric Cooperation | 107,446 | 12 |
| Surprise Valley Electrical Corporation | 92,476 | 11 |
| Boulder City/Parker Davis | 90,584 | 10 |
| City of Needles | 78,480 | 9 |
| Trinity Public Utility District | 71,003 | 8 |
| City of Shasta Lake | 70,735 | 8 |
| City of Healdsburg | 68,712 | 8 |
| Anza Electric Cooperative, Inc. | 36,036 | 4 |
| City of Gridley | 29,628 | 3 |
| Tuolumne County Public Power Agency | 25,790 | 3 |
| Calaveras Public Power Agency | 24,629 | 3 |
| City of Biggs | 9,889 | 1 |
| Valley Electric Association, Inc. | 7,364 | 1 |
| City of Escondido | 404 | 0 |

Source: California Energy Commission, http://www.energy.ca.gov/electricity/utility_sales.html

Supply/Demand Mix

- For each hour of each month (Mar 00 - May 01), the municipal will be requested to provide the MWH amounts associated with its obligations and resources
- Obligations will be segregated into
 - ↗ Retail load
 - ↗ Wholesale sales (by contract)
- Resources will be segregated by
 - ↗ Each generating facility, and
 - ↗ Each supply contract or source

Net Short Position

$$\text{Net Short} = \text{Retail Load} + \text{Pre-Existing Firm Wholesale Obligations*} - \text{Own Generation Output} - \text{Pre-Existing Supply Contracts*}$$

- * Only firm wholesale obligations and supply contracts signed as of October 31, 2000 are included.
- New (after October 31, 2000) wholesale obligations and sales (including price redeterminations) are excluded from demand and supply in determining the municipality's net short.
- Documentation of contract vintages will be requested.

Incorporation of Net Short into Damage Allocation

- Damages to each municipality and/or its customers are to be calculated in the same manner as IOUs and CERS.
- Settlement amounts will be apportioned to the municipality and/or its customers according to relative damage amounts.