STEVE WESTLY

California State Controller

Division of Accounting and Reporting

June 16, 2004

County Auditor-Controllers:
County Finance Directors:

On March 20, 2003, Governor Gray Davis and Attorney General Bill Lockyer announced a settlement with El Paso Gas and its subsidiary. The settlement required El Paso Gas to provide ratepayers $1.4 billion to resolve claims that the company withheld pipeline capacity to artificially inflate gas prices during the California energy crisis. On December 10, 2003, Judge J. Richard Haden issued an order granting final approval of this settlement.

Our office notified the Division of Cost Allocation, Department of Health and Human Services (DHHS), of this settlement and they concurred with our interpretation that these payments are an applicable credit per Office of Management and Budget (OMB) Circular A-87. DHHS suggested that all California counties be notified and given instructions *on* how this credit is to be applied.

If your county has received a rebate (settlement) from El Paso Gas or any other energy company, please be aware that it must be reported as a reduction to your utility expenditures prior to the allocation of this cost in your countywide cost allocation plan. If your utility charges are recovered through an Internal Service Fund (ISF), the ISF's billing rates should be adjusted to reflect this rebate or a refund can be processed reimbursing ISF's clients for this overcharge.

The OMB Circular A-87, Attachment A, Section C.4 states: "Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges."

If you have any questions regarding this issue, please contact your Cost Plan Analyst or Tom Cotton at (916) 322-8399.

Sincerely,

Kelly J. Martell

KELLY J. MARTELL, Section Manager
County Cost Plans and Local Apportionments

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Governor Davis and Attorney General Lockyer Announce $1.7 Billion Settlement with El Paso Corp. in Natural Gas Market Misconduct Case

Agreement in Principle Provides $1.4 Billion for Ratepayers

March 20, 2003
03-035
FOR IMMEDIATE RELEASE
(916) 227-3882

(SACRAMENTO) – Governor Gray Davis and Attorney General Bill Lockyer today announced a settlement with El Paso Corporation that solidifies the state's future natural gas supply and requires El Paso to provide ratepayers $1.4 billion to resolve claims that the company withheld pipeline capacity to artificially inflate gas prices during California's energy crisis.

"El Paso played a key role in the multi-billion dollar ripoff of California committed by energy companies," said Lockyer. "This settlement holds the company accountable for its misconduct. It also protects ratepayers, businesses and taxpayers from future price-gouging by helping prevent manipulation of the state's natural gas market."

"This is very good news for California ratepayers," Governor Davis said. "El Paso agreed to pay an unprecedented settlement. The settlement puts in place rules of the road with real teeth. El Paso will never be able to rip off Californians again. This is more evidence that the energy crisis was not a California- created problem, but rather market manipulation by the energy pirates that FERC was ready to sweep under the rug."

Michael Peevey, President of the California Public Utilities Commission stated, "This settlement will provide reasonable compensation for past manipulation by El Paso and its affiliates, as well as provide critical structural reform to prevent natural gas manipulation in California in the future."

The settlement is the fifth, and largest, produced by the Attorney General's ongoing investigation into the California power crisis of 2000 and 2001. The five settlements' combined value totals $2.141 billion.

The agreement in principle announced today will become final after the parties execute a final comprehensive settlement, and obtain all required approvals from state and federal regulators and courts.

Under the Memorandum of Understanding's main terms:

- El Paso will pay $665 million. Of that total, $505.6 million will be allocated to utilities' residential and business ratepayers, pursuant to a formula adopted by the California Public Utilities Commission and the California Department of Water Resources (CDWR) for the benefit of ratepayers. The balance of $159.4 million includes the following allocations: at least $52 million and not more than $65 million will go to Nevada, $23 million to Washington, $17 million to Oregon, $17 million to Long Beach; and, a combined $38.4 million to Los Angeles County, San Bernardino County, Vernon, Culver City, Uplands and two oil companies.

- El Paso will also deliver to California $900 million worth of natural gas over the next 20 years allocated among the settling parties. Some of it will be used to generate electricity under CDWR's agreements; some of it will be monetized. In either event, the value will be realized by ratepayers by lowering electricity generating costs. The delivery schedule will be accelerated to 15 years if the company achieves an investment grade credit rating. The gas will be valued at $45 million annually, in a way that does not create incentives to raise prices at California delivery points.

- Of El Paso's $665 million payment, $225 million will be paid up front. El Paso will pay another $440 million over 20 years. If El Paso obtains an investment grade credit rating for at least six months, the payment period will be reduced to 15 years.

- The settlement also puts in place a structure that will ensure that El Paso will not be able to manipulate the California gas markets in the future. For five years, El Paso will make available to its California delivery points 3,290 million cubic feet per day of firm, primary pipeline capacity. During the same period, El Paso generally cannot contract with any of its affiliates – including El Paso Merchant – to provide them capacity on the pipeline system to California. The agreement also includes an enforcement mechanism should El Paso violate its terms.

- El Paso will pay the state $2 million from a pool established by the company to provide bonuses to executives. The $2 million payment reflects Lockyer's demand that El Paso executives compensate the state for the personal windfall those executives reaped at Californians' expense.

- The state's long-term energy contract with El Paso will be reduced by $125 million. El Paso must implement an antitrust training and compliance program as well as cooperate with the state's ongoing investigation of market misconduct during the energy crisis.

- The Attorney General's Office will end its investigation of El Paso for violations of antitrust laws. The CPUC will drop its claim pending before FERC which alleges El Paso, by withholding pipeline capacity, cost California consumers billions of dollars in artificially inflated gas and electricity prices. Southern California Edison and Pacific Gas & Electric also were parties to that case, and they will drop their claim as well. Additionally, lawsuits filed by private plaintiffs will be resolved, as will actions brought by state of Nevada, City of Long Beach and Los Angeles County.

The Attorney General's wide-ranging probe into the power crisis covers illegal market conduct by energy producers and sellers. The Attorney General's Office currently has more than 100 cases pending before state and federal courts, and the Federal Energy Regulatory Commission (FERC).

The agreement with El Paso comes six days before FERC was scheduled to release its findings on the CPUC's capacity-withholding claim against the company. Also on March 26, FERC plans to issue at least some initial rulings on the state's claim for $9.1 billion in refunds from generators and traders. California parties, including the Attorney General's Office, on March 3 submitted to FERC a 3,000-page filing that documented widespread market manipulation and power withholding in 2000 and 2001.

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El Paso Settlement Information Website

Natural Gas Antitrust Cases I-IV, JCCP No. 4221, et al.

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Update for Non-Core Natural Gas Subclass Members:

On December 10, 2003, Judge J. Richard Haden issued an order granting final approval to the Settlement. Please click here to view the final approval order.

The order approving the settlement has become final, however, certain other conditions precedent to the effectiveness of the settlement remain unsatisfied at this time. No deadline for the submission of Non-Core Natural Gas Subclass claims has been established, and no form for the submission of Non-Core Natural Gas Subclass claims has been issued. The "Industrial Claims Procedure" posted on this website is not a claim form. The claim form is being developed, and Non-Core Natural Gas Subclass members (limited to approximately 3,000 large industrial users of natural gas who do not purchase their gas from their local utility) will be mailed the claim form and instructions for its completion as soon as it is released, which is anticipated to be by the end of May 2004.

If you received the Notice of Class Action Settlement in the mail in September 2003, without having to request it, your company is on the Non-Core Natural Gas Subclass mailing list. If you are a Non-Core Natural Gas Subclass member and you are concerned that your company may not be on the mailing list, you may provide your company name, contact person, and mailing address to the mailing agent at noncoreclaims@poorman-douglas.com. Please do not use this email adress for any other purpose. When the claim form becomes available, further information concerning the submission of claims and the claims deadline will be posted on this website.

A number of Non-Core Natural Gas Subclass members have been informed by a third party that the claims submission period may last only 30-45 days. It will be up to the Court to determine the length of the claims period, however, class counsel will request that the Court approve a claims period of 90 days.

If You Purchased Natural Gas or Electricity for Your Home or Business In California

Your Rights May Be Affected by a Proposed Class Action Settlement

This Home Page may be viewed as an Adobe® Acrobat® PDF file in the following languages:
Japanese | Korean | Spanish | Traditional Chinese

A proposed class action settlement between plaintiffs representing California business and residential users of natural gas and electricity and defendants El Paso Corporation, El Paso Natural Gas Co., and El Paso Merchant Energy, L.P. ("El Paso") is pending in the Superior Court of the State of California, County of San Diego.

You may download the Notice of Proposed Class Action Settlement that describes your legal rights by clicking here.

Beginning in September 2000, seven class action lawsuits were filed on behalf of individuals and businesses in California against El Paso and other defendants. The lawsuits have been coordinated before the Hon. J. Richard Haden, and given the special title *Natural Gas Antitrust Cases I-IV*, JCCP

No. 4221, *et al.*

These lawsuits allege that El Paso and its subsidiary worked together to create artificial shortages and artificially high natural gas prices, manipulated natural gas price indices by engaging in "wash trades", and conspired with Southern California Gas Co. and San Diego Gas & Electric (collectively, the "Sempra Defendants") to eliminate competing pipeline projects under development which would have increased supplies of natural gas to Southern California and reduced or averted natural gas shortages and high natural gas and electricity prices experienced in 2000 and 2001. El Paso and the Sempra Defendants deny these allegations. The lawsuits seek damages and restitution based on the higher energy costs.

If you wish to remain in the settlement class, you need not take any action at this time. However, you will be bound by the rulings of the Court if the settlement is approved. For complete information regarding your rights, please read the Notice of Proposed Class Action Settlement.

Important Dates

- **Approval Hearing – November 20, 2003**
  The Court has scheduled a hearing at 1:30 p.m. on **November 20, 2003** in the courtroom of the Honorable J. Richard Haden, Judge of the San Diego County Superior Court, Department 72, located at 330 W. Broadway, San Diego, California 92101, to determine whether the settlement with El Paso is fair, adequate, and reasonable and should be given final approval. At the same time, the Court will hold a hearing to determine the amount of attorneys' fees and costs to be awarded to the law firms representing the Class. Although you may attend the hearing, you are not required to do so to participate in the settlement.

- **Deadline to Exclude Yourself – October 14, 2003**
  If you do not wish to participate in the settlement or be bound by the Settlement terms, you must submit a request for exclusion, post-marked on or before **October 14, 2003** as detailed in the Exclusion Procedures page.

- **Deadline to File Notice of Intention to Appear – October 14, 2003**
  If you are a member of the settlement class, and wish to comment in support of, or in opposition to, any aspect of the proposed settlement, and/or you wish to be heard at either hearing, you must file with the Clerk of the San Diego Superior Court as detailed in the Notice of Proposed Class Action Settlement.

Welcome to the

El Paso Settlement Information Website

Natural Gas Antitrust Cases I-IV, JCCP No. 4221, et al.

Frequently Asked Questions

What is the Lawsuit About?
Certain plaintiffs allege that El Paso gave its unregulated merchant energy subsidiary a secret discount enabling it to become the sole successful bidder for 1.2 billion cubic feet of capacity on El Paso's pipeline to California from March 2000 through May 2001, and that El Paso and its subsidiary worked together to create artificial shortages and artificially high natural gas prices during this time period. This lawsuit also alleges that El Paso manipulated natural gas price indices by engaging in "wash trades" and by giving false information to the trade press. Other plaintiffs allege that in 1996, El Paso conspired with Southern California Gas Co. and San Diego Gas & Electric (the "Sempra Defendants") to eliminate competing pipeline projects under development which would have increased supplies of natural gas to Southern California and reduced or averted natural gas shortages and high natural gas and electricity prices experienced in 2000 and 2001. El Paso and the Sempra Defendants deny these allegations.

Who is Covered by the Settlement?
The settlement class includes all individuals and businesses in California who purchased natural gas and/or electricity for their own use and not for resale or generation of electricity at any time from September 1996 through March 20, 2003. If you or your business paid a gas or electric bill to a California utility (a "ratepayer"), were a "non-core" gas customer of a California gas utility (generally large industrial users), or a "direct access" electricity customer of a California utility during this time period, you and/or your business are members of the settlement class. For more information, including a detailed Notice of Proposed Class Action Settlement, visit www.elpasosettlement.com or call 1-877-205-2720.

What Are the Terms of the Settlement?
In exchange for the release of all claims arising out of alleged misconduct relating to the California energy crisis, El Paso will provide total consideration to the class of approximately $1.4 billion, as follows:

- Up-front cash payments totaling approximately $256 million.
- Proceeds of the sale of 26,371,308 shares of El Paso Corporation common stock, having a market value of approximately $207 million as of July 24, 2003.
- $125 million in price reductions on power contracts with the California Department of Water Resources through 2005, the cost of which would otherwise be passed on to class members.
- Approximately $798 million, paid in equal semi-annual installments over 20 years, accelerated to 15 years if El Paso obtains an investment-grade rating for 6 months, secured by oil and gas properties and subject to a prepayment option by El Paso at a discount rate of either 7.48% or 7.86%.
- Extensive structural relief designed to help prevent a recurrence of natural gas supply shortages and high prices in California.
- Cooperation with plaintiffs in ongoing litigation against other defendants.
- Costs of class notice and settlement administration.

The benefits of the settlement will be passed through to California gas and electricity ratepayers and direct access electricity customers in the form of rate reductions, credits, and/or rebates, subject to the approval of the California Public Utilities Commission (CPUC). If the settlement is approved, "non-core" gas customers will be invited to submit claims for their share of the settlement, based on a formula. The several groups of class members will share the benefits of the settlement in approximately the following percentages: electricity ratepayers and direct access electricity customers - 73%; natural gas ratepayers – 12%; non-core gas customers – 15%. As nearly all natural gas users are also electricity users, they will also benefit from electricity rate reductions, and vice-versa. PG&E reserves the right to contend before the CPUC that because it was unable to recover the full cost of its electricity purchases while a rate freeze was in effect, it is entitled to certain amounts otherwise allocated to electricity ratepayers in its service territory. The settlement is also subject to FERC approval and entry of a stipulated judgment incorporating the structural relief.

What Are My Rights?

• If you wish to remain in the settlement class, you need not take any action at this time. However, you will be bound by the rulings of the Court if the settlement is approved. This will include a release of your claims against El Paso. The settlement will not release class members' claims against the Sempra Defendants or other firms who are defendants in related litigation arising out of California's energy crisis.

- If you do not wish to participate in the settlement or be bound by the Settlement terms, you must exclude yourself in writing postmarked no later than October 14, 2003, as outlined in the Exclusion Procedures page.

- A hearing will be held by the Court on November 20, 2003 to determine whether the proposed settlement should be approved and to consider the application of the eleven law firms representing the class for attorneys' fees and costs not to exceed $60 million.

If you wish to object to the settlement, you must remain a class member. You and/or your counsel may appear in opposition to the settlement following procedures outlined in the Notice of Proposed Class Action Settlement.
