

**SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN DIEGO**

**Natural Gas Antitrust Cases I-IV
J.C.C.P. No. 4221, et al.**

**If You Purchased Natural Gas or Electricity for Your Home or Business
A Proposed Class Action Settlement May Affect Your Rights**

Please Read this Legal Notice

A proposed class action settlement between plaintiffs representing California business and residential users of natural gas and electricity (“Plaintiffs”) and defendants El Paso Corporation, El Paso Natural Gas Co., and El Paso Merchant Energy, L.P. (together, “El Paso”) is pending in the Superior Court of the State of California, County of San Diego. This notice provides information about the litigation, the proposed settlement, your options, and applicable deadlines.

I. The Litigation

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 in the Superior Court of the County of San Diego before the Hon. J. Richard Haden (the “Court”), and given the special title *Natural Gas Antitrust Cases I-IV*, J.C.C.P. No. 4221, et al.

One of the lawsuits alleges that El Paso gave its unregulated energy trading 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. The other lawsuits allege that in 1996, El Paso conspired with Southern California Gas Co. (“SoCal Gas”) and San Diego Gas & Electric (“SDG&E,” and, together, 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.

II. The Settlement

Plaintiffs and El Paso have agreed to settle the litigation on the terms outlined below. The settlement also resolves a number of related proceedings, including proceedings pending before the Federal Energy Regulatory Commission (“FERC”), as between El

Paso and the State of California, certain of its officers, agencies, and political subdivisions, the Attorneys General of the States of Nevada, Oregon, and Washington, Southern California Edison Co. (“Edison”), and Pacific Gas & Electric Co. (“PG&E”). The full text of the settlement agreement is available on the website www.elpasosettlement.com. On August 6, 2003, the Court preliminarily approved the proposed settlement, and provisionally certified a settlement class. The Court’s order is available on the website, www.elpasosettlement.com.

A. Who Is Included In the Settlement

The settlement class consists of all individuals and entities in California who purchased natural gas and/or electricity for their own use and not for resale or generation of electricity for the purpose of resale at any time from September 1, 1996 through March 20, 2003 (the “Class”). **If you or your business paid a gas or electric bill to a California utility during this time period, you and/or your business are members of the Class.** In addition, the Class includes large businesses classified as “non-core” customers of one of California’s natural gas utilities (described more fully below), or who otherwise purchased natural gas pursuant to contract during this time period. California state and municipal governments and agencies are not included in the Class.

The Court has appointed Thomas L. French, William P. Bower, Doug and Valerie Welch, Frank and Kathleen Stella, United Church Retirement Homes, Long Beach Brethren Manor, Robert Lamond, John and Jennifer Frazee, Continental Forge Company, Andrew and Andrea Berg, John T. Molony, Gerald Marcil, and SierraPine, Ltd. as representatives of the Class. The Court has appointed the law firms of Lieff, Cabraser, Heimann & Bernstein, LLP; O’Donnell & Shaeffer LLP; Girardi & Keese; and Engstrom, Lipscomb and Lack as lead counsel for the Class.

Each Class member is a member of at least one of three subclasses, described below, which have also been provisionally certified by the Court. Most Class members will be members of two subclasses – the Electricity Subclass and either the Core Natural Gas Subclass (which includes residential and most business gas customers) or the Non-Core Natural Gas Subclass (composed of very large commercial and industrial gas users). Membership in the three subclasses is subject to the same limitations and exclusions as membership in the Class, meaning that subclass members’ gas and electricity purchases must have been made between September 1, 1996 and March 20, 2003, and must have been made for consumption and not for resale or for generation of electricity for the purpose of resale.

The **Core Natural Gas Subclass** includes all individuals and entities that were “core,” “core subscription,” or “core elect” natural gas customers of one or more of California’s natural gas utilities at any time between September 1, 1996 and March 20, 2003. **If you are a homeowner, renter, or business that paid a gas bill to a utility during this time period, you are a member of this subclass.** If you are a large business classified as a “non-core” gas customer of a gas utility, but you purchased your gas from the utility as a “core subscription” or “core elect” customer, you are a member of this subclass. If you

are a large business that purchased your gas from a third party supplier instead of a utility, you are not a member of this subclass, even if you paid the utility a transportation charge to deliver the gas to your facilities.

The Court has appointed Thomas L. French, William P. Bower, Doug and Valerie Welch, Frank and Kathleen Stella, United Church Retirement Homes, Long Beach Brethren Manor, Robert Lamond, and John and Jennifer Frazee as representatives of the Core Natural Gas Subclass, and the law firm of Lieff, Cabraser, Heimann & Bernstein, LLP, as lead counsel for the Core Natural Gas Subclass.

The **Electricity Subclass** includes all individuals and entities that purchased electricity as customers, including “direct access” customers, of any California public utility, including municipal electric utilities, at any time between September 1, 1996 and March 20, 2003. **If you paid an electric bill to PG&E, Edison, SDG&E, or any other California electric utility during this time period, you are a member of this subclass.**

The Court has appointed Andrew and Andrea Berg, John C. Molony, Gerald Marcil, and SierraPine, Ltd. as representatives of the Electricity Subclass, and the law firms of O’Donnell & Shaeffer LLP and Girardi & Keese as lead counsel for the Electricity Subclass.

The **Non-Core Natural Gas Subclass** includes all businesses that were “non-core” natural gas customers (excluding “core subscription” and “core elect” customers) of one or more of California’s natural gas utilities, or who otherwise purchased natural gas pursuant to contract, at any time between September 1, 1996 and March 20, 2003. Non-core customers who purchased gas from a third party supplier instead of a utility are members of this subclass, even if they paid the utility a transportation charge to deliver the gas to their facilities. Non-Core customers who elected to purchase gas from a utility are called “core subscription” or “core elect” customers, and are members of the Core Natural Gas Subclass, not the Non-Core Natural Gas Subclass. Non-Core customers who purchased gas from a third party during part of the relevant time period and who were “core subscription” or “core elect” customers of a utility during part of the relevant time period are members of both subclasses. If you are a member of the Non-Core Subclass, you should have received a copy of this notice by mail.

The Court has appointed Continental Forge Company as the representative of the Non-Core Natural Gas Subclass, and the law firm of Engstrom, Lipscomb and Lack as lead counsel for the Non-Core Natural Gas Subclass.

B. What the Settlement Provides

In exchange for a release of all claims arising out of alleged misconduct relating to the California energy crisis (the release is described more fully below), El Paso will provide total consideration to the Class of approximately \$1.4 billion, consisting of:

- 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.
- Approximately \$798 million, paid in equal semi-annual installments over 20 years, accelerated to 15 years if El Paso obtains an investment-grade credit rating for 6 months, secured by oil and gas properties, cash or cash equivalents, or other mutually acceptable properties, and subject to a prepayment option by El Paso at a discount rate of 7.86% if El Paso Corp. has not regained an investment grade credit rating, and 7.48% if El Paso has regained an investment grade credit rating.
- \$125 million in price reductions on power contracts between El Paso and the California Department of Water Resources (“CDWR”) through 2005, the cost of which would otherwise be passed on to Class members.
- El Paso will fully cooperate with Plaintiffs and the other settling parties in ongoing investigations and/or litigation involving other participants in California’s energy markets.
- El Paso will pay all costs of providing notice to the Class and ongoing costs of settlement administration.

In addition to these sums, pursuant to an Allocation Agreement entered into between Plaintiffs and the other settling parties, a total of approximately \$117 million will be paid to the Attorneys General of the States of Nevada, Oregon, and Washington and the Cities of Los Angeles and Long Beach, and up to \$27.375 million will be paid to Edison, PG&E, the California Public Utilities Commission (“CPUC”), the California Attorney General, CDWR, the City of Los Angeles, and the County of Los Angeles, to reimburse them for their attorneys’ fees and expenses incurred in various FERC proceedings, investigations, and in implementing the proposed settlement. The Allocation Agreement is available on the website, www.elpasosettlement.com.

In addition, El Paso has agreed to implement structural reforms that are outlined below and incorporated in a settlement agreement filed with the FERC, a copy of which is posted on the website, www.elpasosettlement.com, including:

- For the next five years, El Paso will make available to its California delivery points 3,290 million cubic feet per day of firm, primary pipeline capacity, subject to certain conditions and exceptions set forth in the FERC settlement agreement. During that period, except as provided in the FERC settlement agreement, El Paso generally cannot contract with any of its affiliates to provide them additional capacity on the El Paso pipeline system to California.

- El Paso also has agreed to upgrade one of its pipelines to add delivery capacity into California.
- PG&E and other Northern California shippers will be able to continue to exercise their rights to recall certain capacity from the El Paso system, under more clearly defined standards that are more fully described in the FERC settlement agreement.
- Certain provisions of the FERC settlement agreement will be enforced by a special master to be appointed by the United States District Court for the Central District of California pursuant to a stipulated judgment to be entered by that court.

C. Allocation of the Settlement

The financial benefits of the settlement will be allocated approximately as follows, by subclass and ratepayer service territory (where applicable):

Core Natural Gas Subclass – 12.10% (composed of PG&E -- 6.02%, SoCal Gas -- 2.83%, SDG&E -- 2.32%, Southwest Gas Corp. -- 0.40%, City of Long Beach Energy Dept. -- 0.54%)

Electricity Subclass – 72.69% (composed of CDWR – 34.01%, PG&E -- 16.13%, Edison – 15.05%, SDG&E -- 4.63%, municipal electric utilities other than the Los Angeles Dept. of Water and Power -- 2.86%)

Non-Core Natural Gas Subclass – 15.22%

As nearly all Core and Non-Core Natural Gas Subclass members are also members of the Electricity Subclass, they will also benefit from electricity rate reductions, and vice-versa. Settlement benefits will be passed through to members of the Core Natural Gas Subclass and the Electricity Subclass who are customers of non-municipal utilities through rate reductions, credits or offsets in amounts to be determined by the CPUC in a pending rulemaking proceeding. The CPUC’s Order Instituting Rulemaking is posted on the website, www.elpasosettlement.com. Pursuant to a proposed settlement of bankruptcy litigation between CPUC staff and PG&E which has not yet been approved or disapproved by the CPUC, the sums allocated to Electricity Subclass members in PG&E’s service territory would reduce the outstanding balance of a “Regulatory Asset,” the effect of which would be to reduce amounts these subclass members would otherwise be required to pay PG&E through higher electricity rates. Customers of PG&E, Edison, and SDG&E pay a surcharge to CDWR to ensure that it has sufficient revenue to make required payments to cover the cost of power purchased by CDWR on behalf of these utilities. The proceeds of the settlement allocated to CDWR will go to reduce CDWR’s costs that will be recovered through these surcharges, directly benefiting the customers of these utilities.

Amounts allocated to Long Beach Energy Dept. ratepayers will be distributed in the form of rate reductions, credits, or rebates. Other municipal utilities will pass benefits through to ratepayers in their respective service territories in such manner and amounts as they shall determine. The percentage share for municipal electric utility service territories is an estimate, and may increase or decrease based on information provided by those utilities in response to the Municipal Electricity Information Request, posted on the website www.elpasosettlement.com.

Members of the Core Natural Gas Subclass and Electricity Subclass will not be required to submit claims to receive the benefits of the settlement. If the settlement is approved, members of the Non-Core Natural Gas Subclass will be invited to submit claims to receive a *pro rata* share of the amounts allocated to that subclass, based on the Industrial Claims Procedure, posted on the website www.elpasosettlement.com. 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 will share in the amounts allocated to the Non-Core Natural Gas Subclass on a *pro rata* basis.

D. Released Claims

If the settlement is approved, Class members will release El Paso from any and all claims and liabilities of any nature whatsoever arising out of or related to natural gas, natural gas pipeline capacity and/or electric power, the price or supply of natural gas, natural gas pipeline capacity and/or electric power, and/or any act, omission, or transaction concerning or relating to natural gas, natural gas pipeline capacity and/or electric power, including without limitation, the purchase, sale, contracting for, scheduling, allocation, transportation, bidding, trading, price reporting, marketing, transmission, generation, production, and withholding of natural gas, natural gas pipeline capacity and/or electric power, based in whole or in part on any alleged act, omission, fact, matter, transaction or occurrence through March 20, 2003. The settlement does not release claims that any member of the Class may have against El Paso for bodily injuries or physical damage to real or personal property. The settlement does not release claims that any Class member may have against any El Paso based solely on the performance or non-performance of the parties under a contract between the Class member and El Paso. This is only a summary of the release provisions of the settlement agreement. The full text of the settlement agreement, including the release provisions, is available at the website www.elpasosettlement.com.

E. Attorneys' Fees and Expenses

The eleven law firms representing the Class will apply for attorneys' fees and reimbursement of litigation expenses not to exceed, in the aggregate, \$60 million. Any attorneys' fees and expense reimbursement awarded by the Court will be paid out of the settlement consideration being provided by El Paso.

III. Your Rights and Options

- 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 companies who are defendants in this litigation or 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 submit a request for exclusion, post-marked on or before October 14, 2003. The address to which exclusion requests should be sent, and the information required, vary depending on whether you are a residential, commercial, or industrial energy user.
 - **Residential users:** If you are residential user of natural gas and electricity, your request for exclusion must state your name and address (giving an attorney's name and address is not sufficient), and that you are excluding yourself from the Class. You must also sign the exclusion request. The exclusion request must be postmarked on or before October 14, 2003, and mailed to:

El Paso Residential Exclusion Requests
P.O. Box 4850
Portland, OR 97208-4850

- **Commercial users:** If you own or manage a business, other than an industrial or agricultural business, your request for exclusion must state the business name, list every address at which the business receives natural gas or electricity service within the State of California, and state that the business is excluding itself from the Class. The exclusion request must be signed by someone with the legal authority to act for the business, and state that person's capacity (e.g., owner, general partner, president). In addition, you must submit a recent bill for natural gas and for electricity for your business. The exclusion request must be postmarked on or before October 14, 2003, and mailed to:

El Paso Commercial Exclusion Requests
P.O. Box 4098
Portland, OR 97208-4098

If you are uncertain whether your business is classified as commercial, industrial, or agricultural, please visit the website, www.elpasosettlement.com, for information on how to make this determination by referring to your gas and electric bills. Exclusion

requests that are otherwise valid but mailed to the wrong address will be honored.

- **Industrial and agricultural users:** If you own or manage an industrial or agricultural business, your request for exclusion must state the business name, list every address at which the business receives natural gas or electricity service within the State of California, and state that the business is excluding itself from the Class. The exclusion request must be signed by someone with the legal authority to act for the business, and state that person's capacity (e.g., owner, general partner, president). In addition, you must submit a recent bill for natural gas and for electricity for your business. The exclusion request must be postmarked on or before October 14, 2003, and mailed to:

El Paso Industrial Exclusion Requests
P.O. Box 3240
Portland, OR 97208-3240

If you are uncertain whether your business is classified as commercial, industrial, or agricultural, please visit the website, www.elpasosettlement.com, for information on how to make this determination by referring to your gas and electric bills. Exclusion requests that are otherwise valid but mailed to the wrong address will be honored.

- A hearing will be held by the Court on November 20, 2003, at 1:30 p.m. in the courtroom of the Honorable J. Richard Haden, Judge of the San Diego County Superior Court, Department 12, 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. The date, time, or location of the hearing may be changed by the Court without further notice to the Class, but any such changes will be posted on the website, www.elpasosettlement.com.
- 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 Class counsel's application for attorneys' fees and expenses, and/or you wish to speak at the hearing, you must file with the Court, not later than October 14, 2003, a signed statement which includes: (1) the name and number of this coordination proceeding, NATURAL GAS ANTITRUST CASES I-IV, J.C.C.P. No. 4221; (2) your complete name and residence or business address (giving the address of a lawyer who represents you is not sufficient); (3) that you purchased natural gas or electricity in California during the period September 1, 1996 through March 31, 2000.

2003; and (4) Each ground for comment or objection and any supporting papers you desire the Court to consider. Please note that the filing of an objection will not extend the time within which a Class member may file a request for exclusion from the settlement. The statement must be filed with:

Clerk of the San Diego Superior Court
Attention: Natural Gas Cases
Hall of Justice
330 West Broadway
Room 241
San Diego, California 92101

Copies of your statement must also be sent by first-class mail, postmarked not later than October 14, 2003, to:

El Paso Class Counsel
P.O. Box 2385
San Francisco, CA 94111

- and -

Diane Pritchard
Morrison & Foerster
425 Market Street
San Francisco, CA 94105-2482

For further information and additional documents concerning the settlement, visit the website www.elpasosettlement.com

Please do not address any inquiries to the Court.