FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

March 22, 2007

In Reply Refer To:
El Paso Natural Gas Company
Docket Nos. RP05-422-019 and RP06-226-002

El Paso Natural Gas Company
Post Office Box 1087
Colorado Springs, CO 80903

Attention: Catherine E. Palazzari
Vice President

Reference: Monthly Imbalance Settlement

Dear Ms. Palazzari:

1. On January 10, 2007, El Paso Natural Gas Company (El Paso) filed an uncontested Offer of Settlement (Settlement) pursuant to Rule 602 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.602 (2006), intending to resolve certain issues associated with the monthly imbalance process set forth in El Paso's tariff. Initial and reply comments were due on or before January 30, 2007, and February 9, 2007, respectively. No adverse comments or protests were filed. The Commission will approve the Settlement because it appears to be fair and reasonable and in the public interest.

2. The Settlement consists of an introduction, seven articles, and an appendix. The following is a summary of the major provisions of the Settlement.

a. Article I describes the factual background surrounding the Settlement and provides a brief procedural history of the proceeding.

b. Article II establishes the scope of the Settlement. Specifically, the Article states that the parties agree that El Paso shall change its monthly imbalance procedures by filing the *pro forma* tariff sheets included in Appendix A of the Settlement, and these changes are described in Article III of the Settlement. The article further states, if there are any conflicts between the

Settlement and the *pro forma* tariff sheets in Appendix A, the tariff sheets shall control.

c. Article III contains several changes to the process of resolving monthly imbalances. Specifically, for delivery point members who utilize the North American Energy Standards Board (NAESB) method of designating a swing contract to allocate imbalances, Article 3.4 provides that El Paso will determine the monthly imbalance percentage by dividing the monthly imbalance allocated to the swing contract by the monthly scheduled quantities for all contracts for all shippers at the specified delivery locations where the contract with the imbalance is the swing contract. Article 3.5 extends the make-up and payback period for monthly imbalances and implements a new monthly imbalance trading process, which will permit shippers to make-up, payback, and trade imbalances after they have received final imbalance data from El Paso. Article 3.6 provides El Paso's agreement to apply Prior Period Measurement Adjustments (PPMA) that decrease a shipper's current monthly imbalance quantity to the current month imbalance activity, and to apply PPMAs that increase a shipper's current month imbalance quantity to the monthly imbalance activity in the month following the month in which the shipper receives the PPMA, with certain specified cash-out limitations. Article 3.2 includes a commitment on the part of operators to provide El Paso with measurement data as soon as possible after such data is available. Article 3.3 permits shippers to use Flow Day Diversion, if available, to pay imbalances.

d. Article IV provides the tariff provisions shall become effective no later than the first day of the month following six months after the effective date of the Settlement. This article also states El Paso will implement some or all of the tariff provisions sooner during this six-month period, if possible, consistent with El Paso's other responsibilities.

e. Article V contains provisions addressing: (1) the non-severability of the Settlement; (2) conditions precedent to the effectiveness of the Settlement; and (3) the rights of parties to withdraw their consent to the Settlement, and pertinent procedures related thereto, if the Commission approves the Settlement with modification, condition or clarification, or does not approve the Settlement for all parties.

f. Article VI states the just and reasonable standard will apply to modifications resulting from the Commission acting *sua sponte* and to requests to modify or amend the Settlement without the agreement of all of the parties. This article also provides the Settlement does not bar El Paso or shippers from proposing further tariff changes to its monthly imbalance procedures, or bar El Paso or shippers from protesting such changes.

g. Article VII contains standard reservations and other miscellaneous provisions. Specifically, Article 7.1 provides that Rule 602 applies to the Settlement. Article 7.2 states the only issues resolved in the Settlement are those issues specifically addressed in the Settlement and its appendix, and by supporting or not supporting the Settlement, no party shall be deemed to have waived any claim or right which it may otherwise have with respect to matters not expressly provided for in the Settlement. Article 7.3 describes the precedential effect of the Settlement. Article 7.4 states that the Settlement shall not be deemed to be a "settled practice" as that term was interpreted and applied in *Public Service Comm'n v. FERC*, 642 F.2d 1335 (D.C. Cir. 1980).

h. Appendix A includes a clean and a marked version of the *pro forma* tariff sheets proposed by El Paso.

3. The Settlement appears to be fair and reasonable and in the public interest and is hereby approved. The Settlement provides that the just and reasonable standard as delineated under sections 4 and 5 of the Natural Gas Act is to be the applicable standard of review for any changes to the Settlement without the agreement of all the parties, including any modifications resulting from the Commission acting *sua sponte*. The Commission's approval of this Settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding. El Paso is directed to file actual tariff sheets consistent with the *pro forma* tariff sheets and the Settlement no later than thirty days prior to the effective date of the tariff sheets.

By direction of the Commission.

Philis J. Posey,
Acting Secretary.