



July 1, 2002

Advice No. 3167
(U 904 G)

Public Utilities Commission of the State of California

Subject: 2001 Sharable Earnings Filing

Southern California Gas Company (SoCalGas) hereby submits for filing and approval with the Public Utilities Commission (Commission) its sharable earnings filing. This filing is made in compliance with Ordering Paragraph 6 of Decision No. (D.) 97-07-054, dated July 16, 1997, in SoCalGas' Performance Based Regulation (PBR) Application No. (A.) 95-06-002.

Purpose

This filing reports on: 1) earnings to be shared with ratepayers under the existing PBR mechanism, 2) an adjustment for actual 2001 customer count, 3) service quality, customer satisfaction and safety incentives, and, 4) the results of Core Pricing Flexibility program and Noncore Competitive Load Growth Opportunity program, as adopted in D.97-07-054 and D.00-04-060, respectively.

Sharable Earnings

SoCalGas' PBR, as adopted in D.97-07-054, provides for a sharing of revenues between ratepayers and shareholders on a progressive basis as earnings exceed the authorized rate of return. The PBR establishes a mechanism by which earnings are shared within "bands" above a benchmark rate of return (ROR) on rate base. The benchmark ROR will be the last authorized ROR. SoCalGas' authorized ROR is 9.49% (per D.96-11-060). Shareholders will retain 100% of the earnings up to 25 basis points (0.25%) above the benchmark ROR. Between 25 basis points and 300 basis points above the benchmark are 8 bands with progressive sharing of earnings between shareholders and ratepayers. Within this band, the shareholder share of earnings rises stepwise from 25% through 100%, as the ratepayer share correspondingly declines from 75% to 0%, as identified in the table below. Specifics of the sharing mechanism are detailed in Section G of Advice No. 2687-A.

The following table summarizes the shareholder/ratepayer sharing percentages within the various bands:

<u>Bands</u>	<u>Basis Points</u>	<u>Shareholder %</u>	<u>Ratepayer %</u>
Inner	00-25	100	00
1	25-50	25	75
2	50-75	35	65
3	75-100	45	55
4	100-125	55	45
5	125-150	65	35
6	150-200	75	25
7	200-250	85	15
8	250-300	95	5
Outer	300-above	100	00

SoCalGas' 2001 Net Operating Income was \$292,361,964. After adjustments pursuant to SoCalGas' PBR, as adopted in D.97-07-054, PBR Sharable Income subject to PBR sharing was \$244,304,893. The authorized return was \$214,691,890, therefore, PBR Sharable Earnings totaled \$29,613,002 for 2001. Sharable Earnings are subject to the sharing provisions, as detailed in Attachment B, Workpapers, Section A. The shareholder portion is \$15,572,220. The ratepayer portion before gross-up is \$14,040,782. Pursuant to SoCalGas' PBR, the ratepayer portion is "grossed-up" to achieve sharing of tax and F&U benefits. The grossed-up portion distributed to ratepayers will be \$17,522,000.

2001 Customer Count Adjustment

The PBR Indexing Mechanism adjusts allowed margin per customer annually as identified in SoCalGas Advice No. 2687-A, Section A. The number of customers is measured by the number of active meters. Pursuant to Section D.4, there is a true-up of base margin using the average recorded number of customers for the year in which the rates were in effect. The true-up adjustment is included in the following year's Sharable Earnings filing as part of the Earnings Sharing Mechanism. The October 2, 2000 PBR filing (Advice No. 2964) forecasted 5,082,990 active meters for 2001. Adjusted actual active meters for 2001 were 5,066,447 – or 16,543 lower than forecast, as detailed in Workpapers' Attachment B, Section B.

2001 average recorded active meters = 5,066,447¹
 2001 forecast of active meters = 5,082,990
 2001 base margin per customer = \$280.90 (per Advice No. 2964)

The proposed revenue adjustment equals:
 $(5,066,447 - 5,082,990) * \$280.90 = -\$4,646,835$

¹ 12-month average of total active customers during 2001, from the 12 monthly SoCalGas Reports E08P25-1, less net meter conversions and reconfigurations -- per Advice No. 2687-A, Sec. D.4.

Allowance for Mobilehome Master Meter Conversions

SoCalGas is due \$167,094 for mobilehome master meter conversions made through 2001.

In 2001, AB622-mandated SoCalGas takeover of converted mobilehome park facilities resulted in a net total of 136 new individual meters. These 136 are added to the 833 meters from prior conversions through 2000 (the 833 are per June 25, 2001 Advice No. 3033, page 3) for a cumulative total of 969 individual meters. These 969 are all part of the conversions excluded from the actual 2001 meter count (and therefore excluded from the \$280.90 per-customer base margin treatment), shown in Workpapers' Attachment B, Section B.

These mobilehome park meter conversions do "result in a base margin customer allowance based on the authorized effective avoided cost for submetered credit" (per AL 2617-A, PBR Preliminary Statement, PART XI – last paragraph of Sheet 4 of 20). That avoided cost is currently \$14.37 per month, or \$172.44 per year per meter (as shown in BCAP, CPUC Decision 00-04-060, Table 17). 969 meters times \$172.44 is \$167,094.

Service Quality, Customer Satisfaction and Safety Incentives

SoCalGas' Advice No. 2687-A, Section H, provides for a penalty mechanism by which SoCalGas will be penalized for failure to meet identified targets for customer satisfaction and service quality. The Advice Letter provides for incentive rewards for meeting and penalties for failure to meet identified targets for employee safety. Section C of the work papers summarizes the targets, the deadbands, and the company's results.

SoCalGas' performance in all areas of the customer satisfaction and service quality surveys exceeded targets, therefore the company is not subject to penalty, as detailed in Attachment B, Workpapers, Section C.

SoCalGas proposes an adjustment of \$460,000, to reward the company for exceeding the target for employee safety, according to Table 3, Section H.3. of Advice No. 2687-A. SoCalGas' PBR, as adopted in D.97-07-054, provides for a \$20,000 reward for each tenth of point decline in incident rate below a deadband of 8.3 incidents per 200,000 hours worked. SoCalGas recorded 6.0 incidents per 200,000 hours worked (see Attachment B, Workpapers, Section C) which significantly exceeds the employee safety standards under the safety incentive mechanism. (8.3-6.0) times 10 times \$20,000 is \$460,000.

Core Pricing Flexibility

D.97-07-054 and D.98-01-040 authorize a core pricing flexibility program for SoCalGas as detailed in Section K.2 of Advice No. 2687-A. Under this arrangement, SoCalGas shareholders are responsible for any reduction in core revenues that may occur due to discounting, while revenue gains will be shared between ratepayers and shareholders in accordance with the PBR sharing mechanism. The Commission has authorized a Core Fixed Cost Account (CFCA) adjustment mechanism to adjust CFCA by revenue gains to be shared between ratepayers and shareholders.

The Core Pricing Flexibility program produced incremental net revenues, which are included in net operating revenue, in the amount of \$378,692.²

Noncore Competitive Load Growth Opportunities

D.00-04-060 authorizes SoCalGas' revenue treatment for new negotiated contracts that are part of a California Red Team economic development effort and contracts where Rule 38 shareholder funding has been used. Under this arrangement, SoCalGas shareholders are responsible for any reduction in noncore revenues that may occur due to discounting, while revenue gains will be shared between ratepayers and shareholders in accordance with the PBR sharing mechanism. The Commission has authorized a Noncore Fixed Cost Account (NFCA) adjustment mechanism to adjust NFCA by revenue gains to be shared between ratepayers and shareholders.

The Noncore Competitive Load Growth Opportunities program produced incremental net revenues, which are included in net operating revenue, in the amount of \$43,176.²

Protest

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

Energy Division - IMC Branch
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Jerry Royer (jrr@cpuc.ca.gov) and Honesto Gatchalian (jnj@cpuc.ca.gov) of the Energy Division. A copy of the protest shall also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

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Effective Date

SoCalGas respectfully requests that this advice letter be approved effective August 10, 2002, which is not less than forty (40) days regular statutory notice.

² The data presented here is for information only per Preliminary Statement XI, items K and L. The amounts of have been included in Net Operating Income in Attachment B Section A and are subject to PBR sharing.

Notice

In accordance with Section III.G of General Order No. 96-A, a copy of this Advice Letter is being sent to the parties listed on Attachment A to this Advice Letter and the parties on the service list in A.95-06-002.

J. STEVE RAHON
Director
Tariffs and Regulatory Accounts

Attachments

ATTACHMENT A

Advice No. 3167

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ATTACHMENT B

Advice No. 3167

**SOUTHERN CALIFORNIA GAS COMPANY
YEAR 2001 SHARABLE EARNINGS WORKPAPERS**

Attached to the Year 2001 Sharable Earnings Draft Filing, pursuant to Advice No. 2687-A, are the following workpapers:

SECTION A: PBR Base Rate ROR Sharing Calculation

SECTION B: Meter True-up

SECTION C: Customer Satisfaction, Service Quality, and Safety Measures

**Southern California Gas Company
PBR Base Rate ROR Sharing Calculation
2001
revenues/(expense)**

For Filing Purposes

Net Operating Income		\$	292,361,964		(i)
Less: PBR Adjustments (Pre-Tax)					
NFCA	2,225,840				
NSBA	6,160,611				
Wheeler Ridge	-				
DSM Award	-				
GCIM Award	30,800,000				(ii)
EOR Incentives/NGV Sharing	1,686,559				
Hazardous Waste	-				(iii)
Montebello	4,635,971				(iv)
Total Pre-Tax Adjustments	45,508,981				
Less: Taxes	40.75%	(18,544,910)			
PBR Adjustment (After Tax)			26,964,071		
PBR Shareable Income		\$	265,397,893		
Less: Tax Reserve Reversal			-		
Recorded Operating Income		\$	265,397,893		
Merger Related Adjustments: Reduction to Earnings					
Merger Savings Incremental (Authorized)	35,600,000				(v)
	35,600,000				
Less: Taxes	40.75%	(14,507,000)			
Adjustments (After Tax) Expenses Added Earnings			21,093,000		
Total Recorded Return/Operating Income	10.80%		244,304,893		
Ratepayer Portion (before gross-up)		\$	14,040,782		
Shareholder Portion			15,572,220		
Authorized Return	9.49%		214,691,890		
Total Authorized Operating Income		\$	244,304,893		
Ratepayer Portion Gross-up for F&U and tax benefits:					
Average Ratepayer Sharing Percentage (r)	47.41%				
Combined F&U and Income Tax Factor (t)	41.90%				
Ratepayer Portion Grossed-up (ratepayer share/(1-r*t))		\$	17,522,000		

Notes:

- (i) Net Operating Revenue as reported on SoCalGas SEC 10K report adjusted for contingent liabilities as required for financial reporting purposes under GAAP but not authorized by the CPUC for ratemaking purposes.*
- (ii) GCIM authorized by D.94-03-076 and extended by D.97-06-061.*
- (iii) Shareholder portion of clean-up and litigation costs are recorded in the Hazardous Waste Balancing Account and offset with shareholder portion of respective insurance recoveries. Therefore, no adjustment to Net Operating Income is necessary.*
- (iv) Shareholder's allocation of the recorded net proceeds from the sale of cushion gas at the Montebello Storage Field pursuant to the Amended Settlement agreement approved by D.01-06-081.*
- (v) See Attachment D, SoCalGas Advice No. 2725*

**Southern California Gas Company
PBR ROR Sharing
2001**

**Attachment B
Section A**

<u>Bands</u>	<u>Basis Points</u>		<u>Income</u>		<u>Shareholder</u>	<u>Shareholder \$</u>	<u>Ratepayer</u>	<u>Ratepayer \$</u>	<u>Average Ratepayer</u>	<u>Total</u>						
	<u>Beg</u>	<u>End</u>	<u>Beg</u>	<u>End</u>	<u>%</u>		<u>%</u>		<u>%</u>							
Inner	-		25	\$ 214,691,890	\$	220,347,630	100%	\$	5,655,740	0%	-	0.00%	\$	5,655,740		
1	25		50	220,347,630		226,003,370	25%		1,413,935	75%	\$	4,241,805	37.50%	5,655,740		
2	50		75	226,003,370		231,659,110	35%		1,979,509	65%		3,676,231	46.67%	5,655,740		
3	75		100	231,659,110		237,314,850	45%		2,545,083	55%		3,110,657	48.75%	5,655,740		
4	100		125	237,314,850		242,970,590	55%		3,110,657	45%		2,545,083	48.00%	5,655,740		
5	125		150	242,970,590		248,626,330	65%		867,296	35%		467,006	47.41%	1,334,302		
6	150		200	248,626,330		259,937,810	75%		-	25%		-		-		
7	200		250	259,937,810		271,249,290	85%		-	15%		-		-		
8	250		300	271,249,290		282,560,770	95%		-	5%		-		-		
Outer	300		above	282,560,770		-	100%		-	0%		-		-		
									<u>\$</u>	<u>15,572,220</u>		<u>\$</u>	<u>14,040,782</u>		<u>\$</u>	<u>29,613,002</u>

Average Ratepayer Sharing \$ 14,040,782 47.41%
\$ 29,613,002

Month	Dec-01
Adjusted Recorded Operating Income	244,304,893
Weighted Average RB	2,262,296,000
Authorized Return	9.49%
Recorded Return	10.80%
Differential	1.31%

PBR Customer Growth Meter True-Up, Using Actual 2001

2001 Monthly Active Customers

source: monthly reports--E08P25-1

	Active
Jan-01	5,053,673
Feb-01	5,060,644
Mar-01	5,064,760
Apr-01	5,064,667
May-01	5,063,046
Jun-01	5,062,777
Jul-01	5,060,807
Aug-01	5,064,302
Sep-01	5,071,120
Oct-01	5,079,866
Nov-01	5,089,616
Dec-01	<u>5,102,938</u>
Actual Average 2001	5,069,851
Net Adjustment: Master-Meter conversions in 2001 (see hardcopy)	-967
Net Adjustment: Non-Core Meter reconfigurations in 2001 (see hardcopy)	-11
PBR Meter Conversions and Reconfigurations from Previous Years	-2,426
Adjusted Actual 2001	5,066,447
PBR forecast for 2001 (per A.L. 2964, filed Oct. 2, 2000):	5,082,990
Actual-forecast customer difference, PBR true-up for 2001:	-16,543

**Southern California Gas Company
2001 PBR REPORT**

Customer Satisfaction, Service Quality, and Safety Measures

	PBR		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	Target/ Deadband	2001	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Telephone Service Rep. ¹														
Target	90.7	91.8	90.5	90.8	91.5	91.7	92.9	91.4	92.8	90.5	92.9	93.6	92.4	90.8
Deadband	89.7													
Appointment Scheduling ¹														
Target	79.4	83.4	79.6	77.4	81.9	85.5	87.4	87.9	85.3	86.0	87.1	89.4	81.3	75.3
Deadband	78.4													
Field Service Representative ¹														
Target	94.2	94.4	93.8	92.5	93.4	93.7	94.8	95.6	94.5	95.4	94.8	95.5	95.1	94
Deadband	93.2													
On Time Arrival ¹														
Target	95.4	96.7	96.1	94.7	95.3	97.4	97.8	97.2	96.7	97.9	97.1	98.4	97.3	95.7
Deadband	94.4													
Telephone Response /Regular ²														
Target	80	83.7	77.9	80.8	82.4	83.7	82.6	82.8	81.2	83.4	90.1	90.9	81.6	87.2
Telephone Response/Emergency ³														
Target	90	93.1	93	94	93	93	93	93	93	94	93	95	91	92
Employee Safety ⁴														
Deadband +	10.3													
Target	9.3	6.0	5.9	6.2	7.5	6.2	5.5	6.9	6.3	6.9	6.1	5.7	3.7	5.5
Deadband	8.3													

**Southern California Gas Company
2001 PBR REPORT
Customer Service
Service Quality Measures
(Monitor Only)**

		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	2001	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Level of Busy Signals ⁵	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.6%	0.3%
Estimated Meter Reads ⁶	1.0%	1.2%	1.4%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%
Leak Response Time ⁷	94%	93%	93%	93%	94%	95%	94%	94%	95%	93%	94%	94%	94%
Missed Appointments ⁸	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%
Problem Resolved on First Visit ⁹	89.1%	87.6%	88.5%	88.6%	88.7%	90.5%	89.4%	89.4%	91.2%	89.5%	90.5%	88.2%	87.2%

Southern California Gas Company
December, 2001 PBR REPORT
Quality Measures
Definitions

1. Percent of total customer satisfaction survey respondents rating the service 8-10.
2. Percent of calls answered within 60 seconds.
3. Percent of emergency calls answered within 20 seconds.
4. Safety incidents per 200,000 hours worked.
Reported data is Year-To-Date for each month.
5. Percentage of busy signals in the call center.
6. Percentage of total reads that were estimated.

Note: The calculation of the percentage of total reads that were estimated has been revised to be more inclusive of all possible which could result in an estimated read being provided to a customer.

7. Percentage of leak calls responded to within 30 minutes Monday through Saturday between 7:00 a.m. and 5:00 p.m., and within 4 during other times.
8. SoCalGas' estimate for percentage of appointments missed due to utility error.
9. Percentage of survey respondents indicating their problems were resolved on the first service call.