



**J. Steve Rahon**  
Director  
Tariffs & Regulatory Accounts

8315 Century Park Ct.  
San Diego, CA 92123-1550  
Tel: 858.654.1773  
Fax 858.654.1788  
srahon@SempraUtilities.com

July 10, 2003

Advice No. 3277  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: 2002 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 2002 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' 2002 Net Operating Income was \$249,126,609. After adjustments pursuant to SoCalGas' PBR, as adopted in D.97-07-054, PBR Sharable Income subject to PBR sharing was \$221,844,062. The authorized return was \$210,821,109; therefore, PBR Sharable Earnings totaled \$11,022,953 for 2002. Sharable Earnings are subject to the sharing provisions, as detailed in Attachment B, Workpapers, Section A. The shareholder portion is \$6,921,066. The ratepayer portion before gross-up is \$4,101,887. 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 \$4,860,000.

### **2002 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 1, 2001 PBR filing (Advice No. 3070) forecasted 5,113,472 active meters for 2002. Adjusted actual active meters for 2002 were 5,132,423 – or 18,951 higher than forecast, as detailed in Workpapers' Attachment B, Section B.

2002 average recorded active meters = 5,132,423<sup>1</sup>  
 2002 forecast of active meters = 5,113,472  
 2002 base margin per customer = \$284.07 (per Advice No. 3070)

The proposed revenue adjustment equals:  
 $(5,132,423 - 5,113,472) * \$284.07 = + \$5,383,363$

<sup>1</sup> 12-month average of total active customers during 2002, from the 12 monthly SoCalGas Reports E08P25-1, less net meter conversions and reconfigurations since 1998 -- 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 2002.

In 2002, there were zero net new individual meters from AB622-mandated SoCalGas takeover of converted mobilehome park facilities. There are 969 meters from conversions in prior years (per July 1, 2002 Advice No. 3167, page 3) which are part of the conversions excluded from the actual 2002 meter count (and therefore excluded from the \$284.07 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). The calculated avoided cost is the 969 meters times \$172.44 equaling \$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 \$520,000, 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 5.7 incidents per 200,000 hours worked (see Attachment B, Workpapers, Section C), which significantly exceeds the employee safety standards under the safety incentive mechanism. Calculation of the award is 2.6 (8.3-5.7) times 10 times \$20,000 equaling \$520,000.

**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 the 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 \$903,980.<sup>2</sup>

### **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 the 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 \$128,149.<sup>2</sup>

### **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 must be received within 20 days of the date 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, 4<sup>th</sup> Floor  
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Jerry Royer ([jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov)) and to Honesto Gatchalian ([jnj@cpuc.ca.gov](mailto:jnj@cpuc.ca.gov)) of the Energy Division. A copy of the protest should 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.

Attn: Sid Newsom  
Tariff Manager - GT14D6  
555 West Fifth Street  
Los Angeles, CA 90013-1011  
Facsimile No. (213) 244-4957  
E-mail: [snewsom@SempraUtilities.com](mailto:snewsom@SempraUtilities.com)

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

**Effective Date**

SoCalGas respectfully requests that this advice letter be approved effective August 19, 2003, which is not less than forty (40) days regular statutory notice.

**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 which includes the parties on the service list in A.95-06-002.

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J. STEVE RAHON  
Director  
Tariffs and Regulatory Accounts

Attachments

**ATTACHMENT A**

**Advice No. 3277**

**(See Attached Service Lists)**

ACN Energy  
Hans Herzog  
hans.herzog@acnenergy.com

ACN Energy  
Mark Warno  
mark.warno@acnenergy.com

ACN Energy  
Tony Cusati  
tony.cusati@acnenergy.com

Aglet Consumer Alliance  
James Weil  
jweil@aglet.org

Alcantar & Kahl  
Elizabeth Westby  
egw@a-klaw.com

Alcantar & Kahl  
Kari Harteloo  
klc@a-klaw.com

AFRPA/DD McClellan Attn: L. Baustian  
3411 Olson Street, Room 105  
McClellan, CA 95652-1003

BP Amoco, Reg. Affairs  
Marianne Jones  
501 West Lake Park Blvd.  
Houston, TX 77079

BP EnergyCo.  
J. M. Zaiantz  
Zaiantj@bp.com

Barkovich & Yap  
Catherine E. Yap  
ceyap@earthlink.net

Berliner, Camdon & Jimison  
John Jimison  
johnj@bcjlaw.com

Beta Consulting  
John Burkholder  
burkee@cts.com

CPUC  
Consumer Affairs Branch  
505 Van Ness Ave., #2003  
San Francisco, CA 94102

CPUC  
R. Mark Pocta  
rmp@cpuc.ca.gov

CPUC  
Energy Rate Design & Econ.  
505 Van Ness Ave., Rm. 4002  
San Francisco, CA 94102

California Energy Market  
Lulu Weinzimer  
luluw@newsdata.com

Calpine Corp  
Avis Clark  
aclark@calpine.com

City of Anaheim  
Ben Nakayama  
Public Utilities Dept.  
P. O. Box 3222  
Anaheim, CA 92803

City of Azusa  
Light & Power Dept.  
215 E. Foothill Blvd.  
Azusa, CA 91702

City of Banning  
Paul Toor  
P. O. Box 998  
Banning, CA 92220

City of Burbank  
Fred Fletcher/Ronald Davis  
164 West Magnolia Blvd., Box 631  
Burbank, CA 91503-0631

City of Colton  
Thomas K. Clarke  
650 N. La Cadena Drive  
Colton, CA 92324

City of Glendale  
Larry Silva  
lsilva@ci.glendale.ca.us

City of Lompoc  
H. Paul Jones  
100 Civic Center Plaza  
Lompoc, CA 93438

City of Long Beach, Gas Dept.  
Chris Garner  
2400 East Spring Street  
Long Beach, CA 90806-2385

City of Los Angeles  
City Attorney  
1700 City Hall East  
Los Angeles, CA 90012

City of Pasadena  
Manuel A. Robledo  
150 S. Los Robles Ave., #200  
Pasadena, CA 91101

City of Riverside  
Stephen Aronson  
saronson@ci.riverside.ca.us

City of Vernon  
Kenneth J. DeDario  
kdedario@ci.vernon.ca.us

Coral Energy  
Walter Cinibulk  
wcinibulk@coral-energy.com

County of Los Angeles  
Stephen Crouch  
1100 N. Eastern Ave., Room 300  
Los Angeles, CA 90063

Davis Wright Tremaine, LLP  
Edward W. O'Neill  
One Embarcadero Center, #600  
San Francisco, CA 94111-3834

Dan Douglass  
douglass@energyattorney.com

Downey, Brand, Seymour & Rohwer  
Dan Carroll  
dcarroll@dbsr.com

Edson & Modisette  
1015 K Street,, #200  
Sacramento, CA 95814

Enserch Gas Marketing, Inc.  
Cathy Hawes  
353 Sacramento, St., Suite 400  
San Francisco, CA 94111

General Services Administration  
Facilities Management (9PM-FT)  
450 Golden Gate Ave.  
San Francisco, CA 94102-3611

Goodin, MacBride, Squeri  
James D. Squeri  
jsqueri@gmssr.com

Louise Huen  
lou@cpuc.ca.gov

Jeffer, Mangels, Butler & Marmaro  
2 Embarcaero Center, 5th Floor  
San Francisco, CA 94111

Crossborder Energy  
Tom Beach  
tomb@crossborderenergy.com

Davis, Wright, Tremaine  
Judy Pau  
judypau@dwt.com

Downey, Brand, Seymour & Rohwer  
Ann Trowbridge  
atrowbridge@dbsr.com

Dynegy  
Joseph M. Paul  
jmpa@dynegy.com

Energy Law Group, LLP  
Andrew Skaff  
askaff@energy-law-group.com

Gas Purchasing  
BC Gas Utility Ltd.  
16705 Fraser Highway  
Surrey, British Columbia, V3S 2X7

William Gibson  
weg@cpuc.ca.gov

Hanna & Morton  
Norman A. Pedersen, Esq.  
npedersen@hanmor.com

Imperial Irrigation District  
K. S. Noller  
P. O. Box 937  
Imperial, CA 92251

LADWP  
Nevenka Ubavich  
nubavi@ladwp.com

Davis Wright Tremaine, LLP  
Christopher Hilen  
chrishilen@dwt.com

Dept. of General Services  
Celia Torres  
celia.torres@dgs.ca.gov

Downey, Brand, Seymour & Rohwer  
Phil Stohr  
pstohr@dbsr.com

Deniese Earley  
deniese.earley@dgs.ca.gov

Energy Law Group, LLP  
Diane Fellman  
difellman@energy-law-group.com

General Services Administration  
Dir., Public Utility Services Div.  
Public Bldgs. Serv., Rm. 7325  
18th and F Streets, N.W.  
Washington, D.C. 20405

Goodin, MacBride, Squeri  
J. H. Patrick  
hpatrick@gmssr.com

David Huard  
dhuard@manatt.com

JBS Energy  
Jeff Nahigian  
jeff@jbsenergy.com

LADWP  
Randy Howard  
P. O. Box 51111, Rm. 956  
Los Angeles, CA 90051-0100



Law Offices of William H. Booth  
 William Booth  
 wbooth@booth-law.com

Luce, Forward, Hamilton & Scripps  
 John Leslie  
 jleslie@luce.com

MRW & Associates  
 Robert Weisenmiller  
 mrw@mrwassoc.com

Matthew Brady & Associates  
 Matthew Brady  
 matt@bradylawus.com

National Utility Service, Inc.  
 Jim Boyle  
 One Maynard Drive, P. O. Box 712  
 Park Ridge, NJ 07656-0712

PG&E National Energy Group  
 Eric Eisenman  
 eric.eisenman@neg.pge.com

Pacific Gas & Electric Co.  
 John Clarke  
 Regulatory R77 Beale, B30A B10C  
 San Francisco, CA 94105

Praxair Inc  
 Rick Noger  
 rick\_noger@praxair.com

Questar Southern Trails  
 Lenard Wright  
 lenardw@questar.com

Ramesh Ramchandani  
 rxr@cpuc.ca.gov

Regulatory & Cogen Services, Inc.  
 Donald W. Schoenbeck  
 900 Washington Street, #780  
 Vancouver, WA 98660

Richard Hairston & Co.  
 Richard Hairston  
 hairstonco@aol.com

Southern California Edison Co  
 Fileroom Supervisor  
 2244 Walnut Grove Ave., Room 290,  
 GO1  
 Rosemead, CA 91770

Southern California Edison Co  
 Karyn Gansecki  
 601 Van Ness Ave., #2040  
 San Francisco, CA 94102

Southern California Edison Co.  
 Colin E. Cushnie  
 cushnice@sce.com

Southern California Edison Co.  
 John Quinlan  
 john.quinlan@sce.com

Southern California Edison Co.  
 Kevin Cini  
 cinikr@sce.com

Southwest Gas Corp.  
 Edward Zub  
 P. O. Box 98510  
 Las Vegas, NV 89193-8510

Suburban Water System  
 Bob Kelly  
 1211 E. Center Court Drive  
 Covina, CA 91724

Sutherland, Asbill & Brennan  
 Keith McCrea  
 kmccrea@sablaw.com

TURN  
 Marcel Hawiger  
 marcel@turn.org

TURN  
 Mike Florio  
 mflorio@turn.org

Transwestern Pipeline Co.  
 Kelly Allen  
 kelly.allen@enron.com

Vandenberg AFB  
 Ken Padilla  
 ken.padilla@vandenberg.af.mil

White & Case  
 Regulatory Affairs  
 regaffairs@sf.whitecase.com

**James Hodges**  
4720 Brand Way  
Sacramento, CA 95819

**Jennifer Chamberlin**  
345 California St., 32nd Floor  
San Francisco, CA 94104-2624

**Patrick J. Power**  
1300 Clay St., #600  
Oakland, CA 94612

**Paul M. Premo**  
310 Hazel Avenue  
Mill Valley, CA 94941-5054

**Sara Steck Myers**  
122 - 28th Avenue  
San Francisco, CA 94121

**Alcantar & Kahl LLP**  
Evelyn Kahl  
120 Montgomery Street, Ste 2200  
San Francisco, CA 94104

**Alcantar & Kahl LLP**  
Michael Peter Alcantar  
1300 SW Fifth Ave., #1750  
Portland, OR 97201

**Alliance Finishing & Manufacturing**  
1721 Ines Avenue  
Oxnard, CA 93033

**Anderson, Donovan & Poole**  
Edward G. Poole, Esq.  
601 California Street, Suite 1300  
San Francisco, CA 94108-2818

**BETA Consulting**  
John Burkholder  
2023 Tudor Lane  
Fallbrook, CA 92028

**Barkovich & Yap, Inc.**  
Catherine E. Yap  
P. O. Box 11031  
Oakland, CA 94611

**CEC**  
Caryn J. Hough  
1516 Ninth St., M.S. 14  
Sacramento, CA 95814

**CPUC - ALJ Division**  
ALJ Victor Ryerson  
505 Van Ness Avenue  
San Francisco, CA 94105

**CPUC - Energy Division**  
Gregory Wilson  
505 Van Ness Avenue, #4A  
San Francisco, CA 94102

**CPUC - Energy Division**  
Maryam Ebke  
505 Van Ness Avenue  
San Francisco, CA 94102

**CPUC - Energy Division**  
Scarlett Liang-Uejio  
505 Van Ness Avenue, Rm 3-E  
San Francisco, CA 94102

**CPUC - Executive Division**  
Maria E. Stevens  
320 West Fourth St., #500  
Los Angeles, CA 90013

**CPUC - Legal Division**  
Catherine A. Johnson  
505 Van Ness Ave., Rm. 5103  
San Francisco, CA 94102

**CPUC - ORA**  
Bernard Ayanruoh  
505 Van Ness Avenue  
San Francisco, CA 94102

**CPUC - ORA**  
Michael C. Amato  
505 Van Ness Ave.  
San Francisco, CA 94102

**CPUC - ORA**  
Thomas W. Thompson  
505 Van Ness Avenue - Rm 4209  
San Francisco, CA 94102

**Cal/Neva Community Action Assn.**  
Sharon Haynes-Creswell  
225 30th St., #200  
Sacramento, CA 95816

**City of Burbank**  
Fred Fletcher/Ronald Davis  
164 West Magnolia Blvd., Box 631  
Burbank, CA 91503-0631

**City of Glendale**  
Bernard V. Palk  
141 N. Glendale Avenue, 4th Level  
Glendale, CA 91206-4496

**City of Pasadena**  
Manuel A. Robledo  
150 S. Los Robles Ave., #200  
Pasadena, CA 91101

**City of Pasadena - Water & Power**  
150 South Los Robles Ave. #200  
Pasadena, CA 91101

**Davis Wright Tremaine, LLP**  
Edward W. O'Neill  
One Embarcadero Center, #600  
San Francisco, CA 94111-3834

**Edson & Modisette**  
Carolyn A. Baker  
925 L Street, #1490  
Sacramento, CA 95814

**Ellison & Schneider**  
Christopher T. Ellison  
2015 H Street  
Sacramento, CA 95814-3109

**Goodin, MacBride, Squeri, Schlotz & James W. McTarnaghan, Esq.**  
505 Sansome Street, #900  
San Francisco, CA 94111

**Goodin, MacBride, Squeri, Schlotz & Michael B. Day, Esq.**  
505 Sansome Street, #900  
San Francisco, CA 94111

**Hanna and Morton LLP**  
Norman A. Pedersen, Esq.  
444 South Flower Street, Suite 2050  
Los Angeles, CA 90071

**Hogan & Hartson**  
John Abram  
555 Thirteenth St., N.W.  
Washington, D.C. 20004

**Imperial Irrigation District**  
James F. Mordah  
333 East Barioni Blvd.  
P. O. Box 937  
Imperial, CA 92251

**Insulation Contractors Assn.**  
Robert E. Burt  
1911 F Street  
Sacramento, CA 95814

**Interstate Gas Services, Inc.**  
Mark A. Baldwin  
2600 Kittyhawk Road, #101  
Livermore, CA 94550

**JBS Energy Inc.**  
William B. Marcus  
311 D Street, Suite A  
West Sacramento, CA 95605

**Kern River Gas Transmission Co**  
Mark C. Moench  
295 Chipeta Way  
Salt Lake City, UT 84108 or  
P. O. Box 58900  
Salt Lake City, UT 84158

**LADWP**  
Robert L. Pettinato  
Natural Gas Supply Manager  
c/o ECC, Rm 1148  
P. O. Box 51111  
Los Angeles, CA 90051-0100

**Law Office of Richard L. Hamilton**  
Richard L. Hamilton, Esq.  
7 Park Center Drive  
Sacramento, CA 95825

**Matthew V. Brady & Associates**  
Matthew V. Brady  
1121 Gold Country Blvd., Ste 101  
Gold River, CA 95670-3099

**Morrison and Foerster**  
Peter W. Hanschen  
425 Market St.  
San Francisco, CA 94205-2482

**Morse, Richard, Weisenmiller & Asso**  
Robert B. Weisenmiller  
1999 Harrison Street, Ste. 1440  
Oakland, CA 94612-3517

**Nat. Resources Defense Council**  
Sheryl Carter  
71 Stevenson St., #1825  
San Francisco, CA 94105-2939

**PHCC of California**  
Steven Lehtonen, Exec. Dir.  
1911 F Street  
Sacramento, CA 95814

**Pacific Gas & Electric Co.**  
Robert McLennan  
P. O. Box 7442  
San Francisco, CA 94120

**Pacific Gas and Electric Co.**  
Andrew L. Niven  
P. O. Box 7442  
San Francisco, CA 94120 or  
77 Beale St.  
San Francisco, CA 94105

**Regulatory & Cogen Services, Inc.**  
Donald W. Schoenbeck  
900 Washington Street, #1000  
Vancouver, WA 98660

**Southern California Edison Co.**  
Gloria M. Ing  
2244 Walnut Grove Ave.  
Rosemead, CA 91770

**Southern California Edison Co.**  
Larry R. Cope  
2244 Walnut Grove, #349  
Rosemead, CA 91770

**Sutherland, Asbill & Brennan**  
Keith R. McCrea  
1275 Pennsylvania Ave., N.W.  
Washington, D.C. 20004-2403

**TURN**  
Marcel Hawiger  
711 Van Ness Ave., #350  
San Francisco, CA 94102

**Transwestern Pipeline Co.**  
Steven Harris  
P. O. Box 1188  
Houston, Texas 77251-1188

**White & Case LLP**  
Jerry R. Bloom  
2 Embarcadero Center, #650  
San Francisco, CA 94111-3162

**ATTACHMENT B**

**Advice No. 3277**

**SOUTHERN CALIFORNIA GAS COMPANY  
YEAR 2002 SHARABLE EARNINGS WORKPAPERS**

Attached to the Year 2002 Sharable Earnings 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**  
**2002**  
*revenues/(expense)*

***For Filing Purposes***

Net Operating Income		\$ 249,126,609 (i)
Less: PBR Adjustments (Pre-Tax)		
2000 PBR Sharing Revenues	\$ (23,751,000)	
NFCA	(521,578)	
NSBA	10,720,559	
EOR Incentives/NGV Sharing	2,008,876	
DSM Award	-	
GCIM Award	17,388,157	(ii)
Hazardous Waste	-	(iii)
Montebello	561,012	(iv)
Aliso / Goleta	1,340,466	(v)
Total Pre-Tax Adjustments	<u>7,746,492</u>	
Less: Taxes	<u>40.75%</u> (3,156,695)	
PBR Adjustment (After Tax)		<u>4,589,797</u>
PBR Shareable Income		\$ 244,536,812
Less: Tax Reserve Reversal		-
Recorded Operating Income		<u>\$ 244,536,812</u>
Merger Related Adjustments: Reduction to Earnings		
Merger Savings Incremental (Authorized)	38,300,000	(vi)
	<u>38,300,000</u>	
Less: Taxes	40.75% <u>(15,607,250)</u>	
Adjustments (After Tax) Expenses Added Earnings		<u>22,692,750</u>
Total Recorded Return/Operating Income	9.99%	<u><u>221,844,062</u></u>
Ratepayer Portion (before gross-up)		\$ 4,101,887
Shareholder Portion		6,921,066
Authorized Return	9.49%	<u>210,821,109</u>
Total Authorized Operating Income		<u><u>\$ 221,844,062</u></u>
Ratepayer Portion Gross-up for F&U and tax benefits:		
Average Ratepayer Sharing Percentage (r)	37.21%	
Combined F&U and Income Tax Factor (t)	41.90%	
Ratepayer Portion Grossed-up (ratepayer share/(1-r*t))		<u><u>\$ 4,860,000</u></u>

**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) Prio period adjustments consisting of credits to excess costs.
- (v) Shareholder allocation of the recorded net proceeds from the sale of cushion gas at the Aliso Canyon and La Goleta Storage Fields pursuant to Decision(D) 02-11-028.
- (vi) See Attachment D, SoCalGas Advice No. 2725



**Attachment B**  
**Section B**

**PBR Customer Growth Meter True-Up, Using Actual 2002**

2002 Monthly Active Customers  
source: monthly reports--E08P25-1

	Active
Jan-02	5,114,782
Feb-02	5,123,291
Mar-02	5,127,534
Apr-02	5,130,726
May-02	5,132,646
Jun-02	5,133,811
Jul-02	5,132,666
Aug-02	5,136,075
Sep-02	5,141,657
Oct-02	5,149,868
Nov-02	5,157,890
Dec-02	5,165,272
Actual Average 2002	5,137,185
Net Adjustment: Master-Meter conversions in 2002 (see hardcopy)	-1,347
Net Adjustment: Non-Core Meter reconfigurations in 2002 (see hardcopy)	-11
PBR Meter Conversions and Reconfigurations from Previous Years	-3,404
Adjusted Actual 2002	5,132,423
PBR forecast for 2002 (per A.L. 3070, filed Oct. 1, 2001):	5,113,472
Actual-forecast customer difference, PBR true-up for 2002:	18,951

**Southern California Gas Company  
2002 PBR REPORT  
Customer Satisfaction, Service Quality, and Safety Measures**

	PBR Target/ Deadband	2002			1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec			
<b>Telephone Service Rep. <sup>1</sup></b>																
<b>Target</b>	<b>90.7</b>	92.8	91.4	92.3	93.7	91.5	93.2	92.6	93.0	92.6	93.4	91.6	93.8			
<b>Deadband</b>	<b>89.7</b>															
<b>Appointment Scheduling <sup>1</sup></b>																
<b>Target</b>	<b>79.4</b>	86.2	82.2	86.9	86.1	86.8	86.2	85.8	87.2	86.0	85.4	82.3	80.8			
<b>Deadband</b>	<b>78.4</b>															
<b>Field Service Representative <sup>1</sup></b>																
<b>Target</b>	<b>94.2</b>	94.8	93.4	94.2	95.5	94.9	95.2	95.8	95.9	95.7	95.9	93.8	94.6			
<b>Deadband</b>	<b>93.2</b>															
<b>On Time Arrival <sup>1</sup></b>																
<b>Target</b>	<b>95.4</b>	97.9	96.6	98.2	97.5	97.8	96.4	97.1	97.0	97.6	98.1	97.3	96.6			
<b>Deadband</b>	<b>94.4</b>															
<b>Telephone Response /Regular <sup>2</sup></b>																
<b>Target</b>	<b>80</b>	82.3	84.9	85.1	84.2	83.2	83.7	82.4	84.1	84.4	84.3	87.3	83.0			
<b>Telephone Response/Emergency <sup>3</sup></b>																
<b>Target</b>	<b>90</b>	93	91	93	94	93	94	94	94	93	95	95	94			
<b>Employee Safety <sup>4</sup></b>																
<b>Deadband +</b>	<b>10.3</b>															
<b>Target</b>	<b>9.3</b>	4.1	4.0	4.9	5.1	5.0	4.8	4.5	5.1	5.3	5.7	5.7	5.7			
<b>Deadband</b>	<b>8.3</b>															



**Southern California Gas Company**  
**2002 PBR REPORT**  
**Customer Service**  
**Service Quality Measures**  
**(Monitor Only)**

	2002	1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Level of Busy Signals<sup>5</sup></b>	<b>0.1%</b>	0.2%	0.2%	0.2%	0.0%	0.0%	0.6%	0.1%	0.0%	0.3%	0.0%	0.0%	0.0%
<b>Estimated Meter Reads<sup>6</sup></b>	<b>1.0%</b>	0.9%	0.9%	0.8%	0.8%	1.2%	1.1%	1.2%	0.9%	0.9%	1.0%	0.9%	1.0%
<b>Leak Response Time<sup>7</sup></b>	<b>93%</b>	94%	92%	94%	94%	93%	95%	95%	94%	94%	93%	93%	93%
<b>Missed Appointments<sup>8</sup></b>	<b>0.1%</b>	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Problem Resolved on First Visit<sup>9</sup></b>	<b>89.5%</b>	88.1%	89.7%	89.6%	89.0%	89.5%	90.3%	89.7%	88.7%	89.0%	91.7%	90.0%	89.2%

**Southern California Gas Company**  
**December, 2002 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. *Note: 9/4/02 Revised April Rate to reflect YTD instee*
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 instances 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 45 minutes 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.