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October 15, 2003

Advice No. 3302
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Annual Regulatory Account Balance Update for Rates Effective
January 1, 2004**

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) revisions to SoCalGas' revenue requirement and rates effective January 1, 2004.

Purpose

This filing, made each year on or before October 15th, complies with the longstanding practice of updating SoCalGas' revenue requirements for projected year-end regulatory account balances as established in Ordering Paragraph 2 of Decision No. (D.) 94-12-052. This filing revises SoCalGas' rates to incorporate the projected 2003 year-end regulatory account balances in rates effective January 1, 2004.

Background

The revenue requirements related to the regulatory account balances are amortized in rates over 12 months beginning each January 1st. It should be noted that the revenue requirements herein do not include other revenue requirement adjustments authorized or expected to be authorized by the Commission for implementation in rates effective January 1, 2004. SoCalGas will file an advice letter consolidating all Commission-authorized changes in its revenue requirements, and the related changes to its rates, at least three days prior to the January 1, 2004 effective date of such rates.

Included with this filing are a Summary of Revenue Changes and Present and Proposed Rates (Attachment B) and a Summary of Regulatory Account Changes (Attachment C).

Customer Rate Impact

Core Customers:

The core transportation rate increase is primarily due to undercollections in the Montebello True-up Tracking Account (MTTA), Core Fixed Cost Account (CFCA) which includes the Merger Savings credit as approved in Decision 03-08-027, and the change in the amortization of the Post-Retirement Benefits Other Than Pensions (PBOPS) as described below.

MTTA - Pursuant to the Amended Settlement agreement approved by D.01-06-081, SoCalGas established the MTTA to track the ratepayer's share (50%) of the actual net after tax gains associated with the sale of cushion gas at the Montebello Storage Field (Montebello) and the abandonment of the Montebello facilities to the \$30.0 million upfront refund that was provided to ratepayers over a twelve month period beginning September 2001 and ending August 2002. The refund was based on estimated proceeds from the sale of the cushion gas over a period of several years at gas prices experienced in 2001. Gas prices have declined since then and current production studies project less cushion gas than originally estimated which have significantly impacted the ratepayer's (as well as shareholder's) projected share of the net proceeds from the abandonment of Montebello. The core's allocation of the undercollection in the MTTA is approximately \$18.6 million.

PBOPS - Currently embedded in 2003 rates, SoCalGas is amortizing the remaining PBOP overcollections of \$40.3 million that were accumulated during the period 1998 – 2001. The projected PBOP overcollection accumulated during 2002-2003 is \$23.0 million, an increase in SoCalGas' revenue requirement of \$17.3 million. The core's revenue requirement allocation of this increase is \$15.4 million.

CFCA – Core customer transportation rates are based on the average temperature year gas demand data adopted by the Commission in D.00-04-060. Pursuant to Advice Letter 3196, SoCalGas was authorized to amortize in 2003 rates a Core Fixed Cost Account (CFCA) overcollection of \$77.2 million. The projected CFCA balance for amortization in 2004 rates is \$70.9 million, representing a revenue requirement increase of \$6.3 million. This reflects the core's allocation of the merger savings credit of \$74.4 million partially offset by the forecasted 2003 year-end CFCA balance.

Noncore Customers:

The noncore transportation rate increase is primarily due to undercollections in the Noncore Fixed Cost Account (NFCA), Self Generation Program Balancing Account (SGPBA) and Montebello True-up Tracking Account (MTTA), offset by projected overcollection in the Interstate Transition Cost Surcharge Account (ITSCA) as described below.

ITSCA – As a result of favorable brokering of stranded capacity during 2003 and risk sharing credits received from El Paso Natural Gas Pipeline Company, the ITSCA is projected to be \$20.0 million overcollected by year-end 2003. Combined

with the projected 2004 stranded capacity, the ITCSA amortization in rates effective January 1, 2004 is a \$13.7 million overcollection, which represents a revenue requirement decrease of \$16.5 million.

NFCA – As a result of the decline in gas deliveries primarily to electric generation customers and higher company use fuel and unaccounted for gas expenses associated with higher fuel costs, the NFCA is projected to be \$26.0 million undercollected by year-end. With the inclusion of noncore's allocation of the merger savings credit (\$9.3 million), the NFCA balance for amortization in 2004 rates is a \$17.0 million undercollection, which represents a revenue requirement increase of \$13.7 million.

SGPBA – Pursuant to decision D.01-07-028 and D.01-03-073, the Commission authorized regulatory accounting treatment of the incremental costs associated with SoCalGas' Self-Generation Program prescribed under Assembly Bill 970. Self-generation, as defined in D.01-03-073, refers to distributed generation technologies, such as microturbines, small gas turbines, wind turbines, photovoltaics, fuel cells, internal combustion engines, and combined heat and power (or cogeneration). Self-generation units, with a 1.5 megawatt maximum system size limit, are installed on the customer's side of the utility meter and provide electricity for all or a portion of that customer's electric load. The SGPBA is forecasted to be \$19.0 million undercollected by year-end. The noncore's allocation of the undercollection is estimated to be \$12.2 million, which represents a revenue requirement increase of \$11.0 million.

MTTA – As a result of the current projection of the net after tax proceeds associated with the abandonment of Montebello as discussed above, noncore's allocation (30%) of the MTTA undercollection is \$8 million.

Regulatory Accounts

An increase of \$47.2 million in the total core revenue requirement is necessary to amortize the projected year-end 2003 regulatory account balances. The major components of this revenue requirement increase are as follows:

Description	Core Revenue Requirement Increase/(Decrease) <i>(in millions of \$)</i>
Montebello True-up Tracking Account (MTTA)	18.6
Post Retirement Benefits Other Than Pensions (PBOPS)	15.4
Core Fixed Cost Account (CFCA)	6.3
Self Generation Program Balancing Account (SGPBA)	6.1
Other regulatory account balances	0.8
Total Core Revenue Requirement	47.2

An increase of \$20.2 million in the total noncore transportation revenue requirement is necessary to amortize the projected year-end 2003 regulatory account balances. The major components of this revenue requirement increase are as follows:

Description	Noncore Revenue Requirement Increase/(Decrease) <i>(in millions of \$)</i>
Interstate Transition Cost Surcharge Account (ITCSA)	(16.5)
Noncore Fixed Cost Account (NFCA)	13.7
Self Generation Program Balancing Account (SGPBA)	11.0
Montebello True-up Tracking Account (MTTA)	8.0
Other regulatory account balances	4.0
Total Noncore Revenue Requirement	20.2

Protests

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 this advice letter was filed with the Commission. 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 (jjr@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.

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

Effective Date

SoCalGas respectfully requests that this advice letter be approved on January 1, 2004, which is more 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 SoCalGas' 2003 BCAP A.01-09-024.

J. STEVE RAHON
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Attachments

ATTACHMENT A

Advice No. 3302

(See Attached Service Lists)

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ATTACHMENT B

Advice No. 3302

Summary of Transportation Revenue Changes

and

Summary of Present and Proposed Rates

Attachment B.1

SUMMARY OF TRANSPORTATION REVENUE CHANGES

SOUTHERN CALIFORNIA GAS COMPANY

Regulatory Account Update for 1/1/2004

	BCAP REVENUES AT RATES IN EFFECT 01/01/2003 (MS) (A)	REVENUES AT PROPOSED RATES (MS) (B)	INCREASE (DECREASE) (MS) (C=B-A)	CHANGE (%) (D=C/A)
CORE PROCUREMENT: 1_/				
RESIDENTIAL	1,057,608	1,093,348	35,740	3.379
LARGE MASTER METERED	8,632	9,168	536	6.215
CORE COMMERCIAL & INDUSTRIAL	195,219	204,060	8,841	4.529
GAS A/C	138	149	11	8.300
GAS ENGINE	3,085	3,085	-	-
TOTAL CORE PROCUREMENT	1,264,681	1,309,810	45,129	3.568
CORE TRANSPORTATION: 1_/				
RESIDENTIAL	10,612	10,973	361	3.402
LARGE MASTER METERED	86	92	5	6.292
CORE COMMERCIAL & INDUSTRIAL	35,191	36,867	1,676	4.764
GAS A/C	18	19	2	8.488
GAS ENGINE	160	160	-	-
TOTAL CORE TRANSPORTATION	46,066	48,111	2,044	4.438
TOTAL CORE	1,310,747	1,357,920	47,173	3.599
NONCORE:				
COMMERCIAL & INDUSTRIAL	73,399	78,517	5,118	6.973
ELECTRIC GENERATION 2_/	82,436	89,969	7,533	9.138
NONCORE SUBTOTAL	155,835	168,486	12,651	8.118
WHOLESALE				
LONG BEACH	1,828	2,082	255	13.935
SAN DIEGO GAS & ELECTRIC	25,421	29,967	4,546	17.883
SOUTHWEST	1,975	2,273	298	15.082
VERNON	972	1,138	166	17.134
TOTAL WHOLESALE	30,195	35,461	5,265	17.437
INTERNATIONAL				
DGN	752	870	118	15.707
UNBUNDLED STORAGE	21,000	21,000	-	-
UNALLOC. COSTS TO NSBA	12,939	12,939	-	-
NET CARE REVENUES	4,702	4,702	-	-
SYSTEM TOTAL	1,536,171	1,601,378	65,208	4.245
EOR REVENUES	22,777	22,777	-	-

1/ If necessary, SoCalGas will update the cost allocation of the Baseline Memorandum Account balance as directed by the Commission in R.01-05-047 pursuant to the Baseline Phase II decision in its consolidated year-end rate update if such a decision is approved before year-end 2003.

2/ Common EG Adjustment Change of -\$2203M does not reflect updated SDG&E EG revenues at proposed rates.

ATTACHMENT B.2

SOUTHERN CALIFORNIA GAS COMPANY SUMMARY OF PRESENT AND PROPOSED RATES Regulatory Account Update for 1/1/2004

Class of Service		Current	Proposed Rates	Increase/Decrease		
		Effective	Reflecting	Rate	%	
		01/01/2003	01/01/2004	(c)=(b)-(a)	(d)=(c)/(a)	
		(a)	(b)			
CORE - TRANSPORTATION COMPONENT 1_/						
Residential						
Average Residential						
	Customer Charge	\$/month	\$5.00	\$5.00	-	-
	Baseline	c/th	25.873	27.288	1.415	5.47%
	Non-Baseline	c/th	44.024	45.510	1.486	3.37%
	<u>Average Residential Rate</u>	c/th	<u>42.576</u>	<u>44.015</u>	<u>1.439</u>	<u>3.38%</u>
Non-Residential						
Core Commercial & Industrial						
			<u>Combined C/I</u>	<u>Combined C/I</u>		
	Customer Charge	\$/month	\$10.00/15.00	\$10.00/15.00	N/A	N/A
	Tier I (0-100 S, 250 W)	c/th	41.302	42.520	1.218	2.95%
	Tier II (Tier I-4167)	c/th	22.830	24.177	1.347	5.90%
	Tier III (>4167)	c/th	10.205	11.235	1.030	10.09%
Gas Air Conditioning						
	Customer Charge	\$/month	\$150.00	\$150.00	-	-
	Volumetric Rate	c/th	10.292	11.370	1.078	10.48%
Gas Engine						
	Customer Charge	\$/month	\$50.00	\$50.00	-	-
	Volumetric Rate	c/th	17.631	17.631	-	-
NONCORE - Average Transmission Rate						
Retail						
	Industrial	c/th	5.039	5.390	0.351	6.97%
	Electric Generation 2_/	c/th	2.800	3.056	0.256	9.14%
Wholesale						
	Long Beach	c/th	2.349	2.676	0.327	13.93%
	SDG&E	c/th	1.758	2.073	0.314	17.88%
	Vernon	c/th	1.882	2.205	0.322	17.13%
	Southwest Gas	c/th	2.155	2.479	0.325	15.08%
UNBUNDLED STORAGE						
Annual Reservation						
	Injection	\$/Dthd	20.169	20.169	-	-
	Withdrawal	\$/Dthd	11.584	11.584	-	-
	Inventory	\$/Dth	0.214	0.214	-	-
Variable Charges						
	Injection	\$/Dth	0.0127	0.0127	-	-
	Withdrawal	\$/Dth	0.0177	0.0177	-	-
BROKERAGE FEES						
	Core	c/th	0.20100	0.20100	-	-
	Noncore	c/th	0.26600	0.26600	-	-

1_/ If necessary, SoCalGas will update the cost allocation of the Baseline Memorandum Account balance as directed by the Commission in R.01-05-047 pursuant to the Baseline Phase II decision in its consolidated year-end rate update if such a decision is approved before year-end 2003.

2_/ Common EG Adjustment Change of -0.075 c/therm does not reflect updated SDG&E EG revenues at proposed rates.

ATTACHMENT C

Advice No. 3302

Summary of Regulatory Account Changes

ATTACHMENT C

SOUTHERN CALIFORNIA GAS COMPANY SOCALGAS PRESENT AND PROPOSED REGULATORY ACCOUNT BALANCES (M\$)

Account Name	1/01/03 Amortization			Proposed 01/01/04 Amortization			Proposed Change		
	Core (2)	Noncore (3)	Total System (4)	Core (5)	Noncore (6)	Total System (7)	Core (8)	Noncore (9)	Total System (10)
1. Affiliate Transfer Fee Memorandum Account (ATFA)	(55)	(7)	(62)	(47)	(6)	(53)	9	1	10
2. Aliso/Goleta Tracking Account (AGTA)	-	(1,126)	(1,126)	-	23	23	-	1,149	1,149
3. Brokerage Fee Account (BFA)	-	47	47	-	5	5	-	(42)	(42)
4. Catastrophic Event Memorandum Account (Northridge)	-	-	-	-	(0)	(0)	-	(0)	(0)
5. Conservation Expense Account (CEA) ²	-	-	-	-	-	-	-	-	-
6. Core Fixed Cost Account (CFCA)	(77,248)	-	(77,248)	(70,929)	-	(70,929)	6,318	N/A	6,318
7. Economic Practicality Shortfall Memorandum Account (EPSMA)	-	130	130	-	(13)	(13)	-	(143)	(143)
8. Enhanced Oil Recovery Account (EORA)	4,747	484	5,231	7,562	771	8,333	2,815	287	3,102
9. Hazardous Substance Cost-Recovery Account (HSCRA)	4,653	8,345	12,998	4,271	7,661	11,932	(382)	(684)	(1,066)
10. Interstate Transition Cost Surcharge Account (ITCSA)	-	2,881	2,881	-	(13,666)	(13,666)	N/A	(16,547)	(16,547)
11. Intervenor Award Memorandum Account (IAMA)	17	31	49	88	157	245	70	126	197
12. Montebello True-Up Tracking Account (MTTA)	-	-	-	18,554	7,952	26,506	18,554	7,952	26,506
13. Natural Gas Vehicle Account (NGV)	(962)	(1,318)	(2,281)	(714)	(979)	(1,693)	248	340	588
14. Noncore Fixed Cost Account (NFCA)	-	3,320	3,320	-	17,007	17,007	N/A	13,688	13,688
15. Noncore Fixed Costs Tracking Account (CCSI subaccount)	-	(24)	(24)	-	(7)	(7)	-	17	17
16. Noncore Fixed Costs Tracking Account (MPO subaccount)	-	-	-	-	(1)	(1)	-	(1)	(1)
17. Noncore Storage Balancing Account (NSBA)	(841)	(1,508)	(2,349)	200	359	559	1,041	1,867	2,908
18. PITCO/POPCO Transition Cost Account (PPTCA)	(39)	(69)	(108)	(217)	(389)	(606)	(178)	(320)	(498)
19. Post-Retirement Benefits Other Than Pensions (PBOPS)	(35,849)	(4,486)	(40,336)	(20,410)	(2,555)	(22,965)	15,439	1,932	17,371
20. Research, Development & Demonstration Expense Account (RDDEA) ²	-	-	-	(0)	(0)	(0)	(0)	(0)	(0)
21. Research Royalty Memorandum Account (RRMA)	(205)	(26)	(230)	(22)	(3)	(24)	183	23	206
22. Self-Generation Program Balancing Account (SGPBA)	687	1,233	1,920	6,807	12,208	19,015	6,119	10,975	17,095
23. Wheeler Ridge Firm Access Charge Memorandum Account (WRFACMA)	-	-	-	(3,062)	(383)	(3,446)	(3,062)	(383)	(3,446)
24. Balancing Account Subtotal	(105,094)	7,906	(97,188)	(57,921)	28,142	(29,779)	47,174	20,237	67,410

Notes:

1. Balances shown include franchise fees and uncollectibles expenses.
2. In the CEA and the RDDEA, the projected overcollections resulting from the DAP, DSM and RDD activity in this forecast will be carried forward for disposition in future proceedings