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April 28, 2005

Advice No. 3386-A  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Supplemental 2003 Shareable Earnings Filing**

Southern California Gas Company (SoCalGas) hereby submits for filing and approval with the Public Utilities Commission (Commission) its shareable earnings filing. This supplemental filing is made in compliance with Decision No. (D.) 97-07-054, dated July 16, 1997, in SoCalGas' Performance Based Regulation (PBR) Application No. (A.) 95-06-002. D.01-10-030, dated October 10, 2001, extended the PBR period for the year 2003.

**Purpose**

The purpose of this supplemental filing is to correct the safety incentive reward as reported in Advice Letter No. (AL) 3386, dated June 22, 2004. This supplemental filing replaces in its entirety AL 3386.

This supplemental filing reports on: 1) earnings to be shared with ratepayers under the existing PBR mechanism, 2) an adjustment for the actual 2003 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.

**Supplemental Filing**

This supplemental filing is being made to correct the safety incentive reward reported in AL 3386. Based on further review of 2003 safety statistics, it was determined that the incident rate was 6.4 incidents per 200,000 hours worked compared to the 6.0 incidents per 200,000 hours worked that was previously calculated and reported in AL 3386. The change in the incident rate is primarily a result of including OSHA recordable incidents recorded in 2004 that relate to incidents that occurred in 2003. SoCalGas is revising its 2003 safety incentive award calculation to reflect these additional incidents recorded in 2004. Under SoCalGas' currently adopted safety incentive mechanism, SoCalGas receives 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. Based on the revised incident rate,

the award is recalculated to be \$380,000 (19 tenths of a point times \$20,000) or \$80,000 lower than previously reported. The safety incentive reward will be incorporated into rates with the next appropriate rate filing<sup>1</sup>.

### **Shareable 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. 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 benchmark ROR is authorized by the Commission. Effective January 1, 2003 pursuant to Advice Letter 3199-A, SoCalGas' ROR was updated to 8.68% in accordance with the PBR MICAM formula.

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

<b><u>Bands</u></b>	<b><u>Basis Points</u></b>	<b><u>Shareholder %</u></b>	<b><u>Ratepayer %</u></b>
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' 2003 Net Operating Income was \$196,080,829. After adjustments pursuant to SoCalGas' PBR, as adopted in D.97-07-054, PBR Shareable Income subject to PBR sharing was \$188,380,608. The authorized return of \$196,850,409 exceeds the PBR Shareable Income subject to PBR sharing, so there is no income to be shared between ratepayers and shareholders for 2003 subject to the sharing provisions. Refer to Attachment B, Workpapers, Section A, for details.

<sup>1</sup> Pursuant to the approval of SoCalGas' Consolidated Rate filing, AL 3445, dated December 29, 2004, the rate changes associated with AL 3386, excluding the originally reported \$460,000 safety incentive, is included in 2005 rates.

**2003 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 Shareable Earnings filing as part of the Earnings Sharing Mechanism. The October 1, 2002 PBR filing (Advice No. 3193) forecasted 5,200,449 active meters for 2003. Adjusted actual active meters for 2003 were 5,192,858 – or 7,591 fewer than forecast, as detailed in Workpapers' Attachment B, Section B.

2003 average recorded active meters = 5,192,858<sup>2</sup>  
2003 forecast of active meters = 5,200,449  
2003 base margin per customer = \$286.53 (per Advice No. 3193: Annual PBR Rate Adjustment, and Advice No. 3199-A, PBR MICAM Adjustment)

The proposed revenue adjustment equals:  
(5,192,858 – 5,200,449) \* \$286.53 = - \$2,175,049

**Allowance for Mobilehome Master Meter Conversions**

SoCalGas is due \$179,165 for mobilehome master meter conversions made through 2003.

In 2003, there were 70 net new individual meters from AB622-mandated SoCalGas takeover of converted mobilehome park facilities. These 70 meters are added to the 969 meters from conversions through 2002 (per July 10, 2003 Advice No. 3277), for a cumulative total of 1,039 individual meters. These 1,039 meters are all part of the conversions excluded from the actual 2003 meter count (and therefore excluded from the \$286.53 per-customer base margin treatment), shown in Workpapers' Attachment B, Section B.

These mobilehome park meter conversions “result in a base margin customer allowance based on the authorized effective avoided cost for submetered credit” (per AL 2617-A, last paragraph of Section D.4). 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 \$179,165 (1,039 meters times \$172.44).

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<sup>2</sup> 12-month average of total active customers during 2003, from the 12 monthly SoCalGas Reports E08P25-1, less net meter conversions and reconfigurations since 1998-- per Advice No. 2687-A, Sec. D.4.

**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 \$380,000, 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 6.4 incidents per 200,000 hours worked (see Attachment B, Workpapers, Section C), which significantly exceeds the employee safety standards under the safety incentive mechanism. Based on the safety award mechanism, the award is calculated to be \$380,000 (19 tenths of a point times \$20,000).

**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 \$638,524.<sup>3</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 \$274,109.<sup>3</sup>

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<sup>3</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.

**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:

CPUC Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
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)

**Effective Date**

SoCalGas respectfully requests that this advice letter be approved to be effective concurrently with the original request proposed in Advice No. 3386 for inclusion in rates and that approval be made by Commission resolution for disposition at its June 30 business meeting.

**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.02-12-027.

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Attachments

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY/ U 904 G**

Utility type:

ELC     GAS  
 PLC     HEAT     WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

E-mail: snewsom@semprautilities.com

### EXPLANATION OF UTILITY TYPE

ELC = Electric                      GAS = Gas  
PLC = Pipeline                      HEAT = Heat    WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 3386-A

Subject of AL: Supplemental 2003 Sharable Earnings Filing per PBR D.97-07-054

Keywords (choose from CPUC listing): PBR

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.97-07-054

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL \_\_\_\_\_

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: \_\_\_\_\_

Resolution Required?  Yes  No

Requested effective date: 6/30/05

No. of tariff sheets: N/A

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: None

Service affected and changes proposed<sup>1</sup>: \_\_\_\_\_

Pending advice letters that revise the same tariff sheets: N/A

**Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:**

**CPUC, Energy Division**

**Attention: Tariff Unit**

**505 Van Ness Avenue**

**San Francisco, CA 94102**

**jjr@cpuc.ca.gov and jnj@cpuc.ca.gov**

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<sup>1</sup> Discuss in AL if more space is needed.

**ATTACHMENT A**  
**Advice No. 3386-A**

**(See Attached Service Lists)**

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**ATTACHMENT B**

**Advice No. 3386-A**

**SOUTHERN CALIFORNIA GAS COMPANY  
YEAR 2003 SHAREABLE EARNINGS WORKPAPERS**

Attached to the Year 2003 Shareable 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  
2003**

***For Filing Purposes***

Net Operating Income		\$ 196,080,829 (i)
Less: PBR Adjustments (Pre-Tax)		
2001 PBR Sharing Revenues	\$ (17,522,000)	
NFCA	(125,413)	
NSBA	13,187,464	
EOR Incentives/NGV Sharing	1,913,649	
DSM Award	814,749	
GCIM Award	6,318,811	(ii)
Pitco / Popco	754,948	
Montebello	4,933,126	
Aliso / Goleta	2,720,820	(iii)
Total Pre-Tax Adjustments	12,996,154	
Less: Taxes	40.75%	(5,295,933)
PBR Adjustment (After Tax)		7,700,221
<b>Total Recorded Return/Operating Income</b>	8.31%	<b>\$ 188,380,608</b>
Ratepayer Portion (before gross-up)	N/A	\$ -
Shareholder Portion	N/A	-
Authorized Return	8.68%	196,850,409
Total Authorized Operating Income		<b>\$ 196,850,409</b>
Ratepayer Portion Gross-up for F&U and tax benefits:		
Average Ratepayer Sharing Percentage (r)		
Combined F&U and Income Tax Factor (t)	41.90%	
Ratepayer Portion Grossed-up (ratepayer share/(1-r*t))		<b><i>Not Applicable</i></b>

**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 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.*



**Southern California Gas Company  
PBR ROR Sharing  
2003**

**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	\$ 196,850,409	\$ 202,520,064	100%	\$ -	0%	-	0.00%	\$ -
1	25	50	202,520,064	208,189,718	25%	-	75%	\$ -		\$ -
2	50	75	208,189,718	213,859,373	35%	-	65%	-		
3	75	100	213,859,373	219,529,027	45%	-	55%	-		
4	100	125	219,529,027	225,198,682	55%	-	45%	-		
5	125	150	225,198,682	230,868,337	65%	-	35%	-		
6	150	200	230,868,337	242,207,646	75%	-	25%	-		-
7	200	250	242,207,646	253,546,955	85%	-	15%	-		-
8	250	300	253,546,955	264,886,264	95%	-	5%	-		-
Outer	300	above	264,886,264	-	100%	-	0%	-		-
						\$ -		\$ -		\$ -
						\$ -		\$ -		\$ -

Average Ratepayer Sharing      \$ -  
\$ -

Month	Through Dec 2003
Adjusted Recorded Operating Income	188,380,608
Weighted Average RB	2,267,861,853
Authorized Return	8.68%
Recorded Return	8.31%
Differential	-0.37%

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

**PBR Customer Growth Meter True-Up, Using Actual 2003**

2003 Monthly Active Customers

source: monthly reports--E08P25-1

	Active
Jan-03	5,175,929
Feb-03	5,181,337
Mar-03	5,186,196
Apr-03	5,189,005
May-03	5,192,874
Jun-03	5,193,832
Jul-03	5,193,805
Aug-03	5,197,064
Sep-03	5,204,481
Oct-03	5,211,416
Nov-03	5,220,095
Dec-03	<u>5,234,032</u>
Actual Average 2003	5,198,339
Net Adjustment: Master-Meter conversions in 2003 (see hardcopy)	-719
Net Adjustment: Non-Core Meter reconfigurations in 2003	0
PBR Meter Conversions and Reconfigurations from Previous Years	-4,762
Adjusted Actual 2003	5,192,858
PBR forecast for 2003 (per A.L. 3193, filed Oct. 1, 2002):	5,200,449
<b>Actual-forecast customer difference, PBR true-up for 2003:</b>	<b>-7,591</b>

**Southern California Gas Company  
2003 PBR REPORT**

**Customer Satisfaction, Service Quality, and Safety Measures**

	PBR		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	Target/ Deadband	2003	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>	<b>92.6</b>	93.0	93.3	94.5	92.8	91.6	92.9	91.5	91.9	92.1	93.4	92.2	92.0
<b>Deadband</b>	<b>89.7</b>													
<b>Appointment Scheduling <sup>1</sup></b>														
<b>Target</b>	<b>79.4</b>	<b>82.3</b>	84.0	82.1	83.0	83.9	84.2	84.6	80.2	82.4	85.3	86.8	74.9	78.0
<b>Deadband</b>	<b>78.4</b>													
<b>Field Service Representative <sup>1</sup></b>														
<b>Target</b>	<b>94.2</b>	<b>95.0</b>	93.5	93.7	95.4	95.4	94.3	95.1	96.7	95.8	95.4	95.5	94.9	95.0
<b>Deadband</b>	<b>93.2</b>													
<b>On Time Arrival <sup>1</sup></b>														
<b>Target</b>	<b>95.4</b>	<b>97.4</b>	98.0	97.0	96.6	97.7	97.8	96.9	97.6	97.1	97.2	98.5	97.6	96.7
<b>Deadband</b>	<b>94.4</b>													
<b>Telephone Response /Regular <sup>2</sup></b>														
<b>Target</b>	<b>80</b>	<b>83.2</b>	84.4	84.9	84.0	82.9	83.2	81.7	83.2	83.7	84.6	82.9	80.0	82.9
<b>Telephone Response/Emergency <sup>3</sup></b>														
<b>Target</b>	<b>90</b>	<b>92.7</b>	94.0	92.2	91.7	92.3	92.7	92.9	92.8	91.0	93.6	93.7	92.8	93.0
<b>Employee Safety <sup>4</sup></b>														
<b>Deadband +</b>	<b>10.3</b>													
<b>Target</b>	<b>9.3</b>	<b>6.4</b>	4.3	3.8	4.8	5.7	5.9	5.8	6.5	6.5	6.3	6.2	6.0	6.4
<b>Deadband</b>	<b>8.3</b>													

**Southern California Gas Company  
2003 PBR REPORT  
Customer Service Quality Measures  
(Monitor Only)**

		1st Quarter			2nd Quarter			3rd Quarter			4th Quarter		
	2003	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>	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Estimated Meter Reads <sup>6</sup></b>	<b>1.0%</b>	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	1.0%	0.9%	1.1%	1.2%	0.9%
<b>Leak Response Time <sup>7</sup></b>	<b>93%</b>	94%	93%	94%	94%	95%	94%	94%	94%	94%	92%	92%	92%
<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%	0.2%	0.1%	0.1%
<b>Problem Resolved on First Visit <sup>9</sup></b>	<b>89.6%</b>	89.6%	88.7%	89.6%	89.0%	91.0%	89.9%	91.1%	90.4%	88.2%	90.2%	90.0%	87.4%

**Southern California Gas Company**  
**2003 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 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.