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August 29, 2005

Advice No. 3408-A
(U 904 G)

Public Utilities Commission of the State of California

Subject: SUPPLEMENTAL FILING: REVISIONS TO GAS TARIFFS IN COMPLIANCE WITH GAS PUBLIC PURPOSE PROGRAM SURCHARGE DECISION 04-08-010

The Southern California Gas Company (SoCalGas) hereby submits for approval the following revisions applicable to its gas tariffs as shown on the enclosed Attachment B.

Purpose

At the request of the Energy Division, SoCalGas is making this supplemental filing to revise the Preliminary Statement for the CAREA, CEA, and RDDGSA and Schedule G-PPPS.

The Regulatory Accounts were revised to add clarifying language to reflect that: 1) the surcharge collected may include surcharge funds from interstate non-exempt pipeline customers; 2) amounts reimbursed to the utility exclude R&D administrator funds; and 3) the net amortization component of the gas PPP account balances will be consistent with the Commission's prevailing policy on PPP accounting methods. In addition, as clarified in a section following, the RDDGSA was further revised to clarify the tracking of the annual BOE and CPUC administrative costs, the interest calculation, and disposition of the account balance in future rate updates. Schedule G-PPPS was revised to add clarifying language for the treatment of Franchise Fees and Uncollectibles, BOE Remittances, PPP Surcharge Refunds by the utility, and the distribution and treatment of amounts received from the Gas Consumption Surcharge Fund. This filing supercedes Advice Letter 3408 in its entirety.

In compliance with the California Public Utilities Commission (Commission) Decision (D.) 04-08-010 in the Natural Gas Surcharge Rulemaking proceeding (R.) 02-10-001, SoCalGas hereby files revisions to its gas tariffs including: 1) revisions to its G-PPPS tariff schedule and 2) revisions to its Preliminary Statement, Part V, Regulatory Accounts – Balancing, and Part VI, Regulatory Accounts – Memorandum to modify existing accounts and establish a new account pursuant to the Natural Gas Surcharge D. 04-08-010. In addition, this filing acknowledges that SoCalGas will be providing a refund, with accrued interest, to customers that are identified as being exempt from the gas surcharge

by December 31, 2004 and references the annual October 31st filing date for updating the gas PPP surcharge rates.

Background

As a result of the passage of Assembly Bill (AB) 1002 which went into effect on January 1, 2001, a surcharge was established on natural gas consumed in the State of California for the purpose of funding various public purpose programs¹. Utilities were required to remove the PPP funding from their transportation rates and remit PPP revenues collected to the State Board of Equalization (BOE) for deposit in the Fund.

On August 19, 2004, the Commission issued D.04-08-010, which adopted the Energy Division's AB1002 Workshop Report recommendations, except as otherwise addressed in the decision, on policy and implementation issues.

Based upon D.04-08-010, SoCalGas' filing adheres to the requirements outlined in the Ordering Paragraphs of the decision.

Revision to G-PPPS Tariff Schedule

Consistent with Ordering Paragraph (OP) 10 of D.04-08-010, SoCalGas revises its G-PPPS schedule to reflect the surcharge formula adopted by the Commission. The formula provides the following:

- Use of the most recently adopted PPP budgets for the calculation of the surcharge rates. If the CARE program budget has not been adopted, a reasonable forecast of CARE subsidy costs may be used;
- Use of the estimated gas throughput from the most recent BCAP that was adopted by the Commission if less than three years old; otherwise, a three-year average (consecutive 36-month period) based on the most recently available gas volumes may be used.
- BOE/Commission administrative costs and R&D program costs are to be provided to the utilities to ensure that these costs are appropriately reflected in the proposed surcharge in the October filing for surcharge rates effective January 1 of the following year. However, D.04-08-010 provides that the Energy Division shall provide the R&D program budget to the utilities prior to October 31. SoCalGas respectively requests that all information be provided by September 30 to ensure the timely filing of the advice letter.

SoCalGas is eliminating the reference to a tax in this tariff schedule and included more references in the Applicability section of the tariff to provide greater clarity on identifying exempt customers. Exemptions will continue to be identified pursuant to Public Utilities Code 896 and the California Energy Resources Surcharge Regulation 2315 and 2316. The reference to tax is being removed to avoid customer confusion that this is not a "new"

¹ The public purpose programs referred to include the low-income customer assistance, energy efficiency, and public interest research and development (R&D).

tax but a component of transportation rates that existed prior to January 1, 2001 and only separated as a surcharge as required under AB1002.

SoCalGas is adding language to the tariff schedule pursuant to Workshop Report recommendation to allow the utilities the flexibility to file an interim advice letter during the year in a situation where failure to make the rate change would result in a forecasted total rate increase of 10% or more on January 1 of the following year.

Revision to PPP Regulatory Accounts

Pursuant to OP 13, the utilities are required to file advice letters to establish and/or modify their balancing and/or memorandum accounts to facilitate the unbundling of public purpose program costs from their rates, treatment of interest accrued in the Fund, and to account for the adopted research and development (R&D) procedures. The proposed changes in the following PPP regulatory accounts described below comport with the recommendations adopted in D.04-08-010.

California Alternate Rates for Energy Account (CAREA)

The CAREA was modified to indicate the balancing of program costs and “gas surcharge” funds reimbursed from the State. The account also is modified to reflect the procedures for the billing, collection, remittance and reimbursement of the gas surcharge funds, as well as include the process by which the utilities are to update the gas PPP rates effective January 1 of each year:

- **Billing and Collection of Gas Surcharge Funds** - The billing of the gas surcharge funds, reduced for actual amounts found to be uncollectible, are credited to the CAREA prior to the remittance to the BOE to ensure that ratepayers are appropriately credited for the time value of money (i.e., with balancing account interest) while the funds are in the possession of the utilities.
- **Remittance of Gas Surcharge Funds to BOE** - The CAREA is subsequently charged to reflect the remittance of the funds to the BOE, net of any refunds paid by SoCalGas to customers who are exempt from the gas surcharge.
- **Gas Surcharge Refunds** – Refunds paid by SoCalGas to customers who are exempt from the gas surcharge are charged to the CAREA.
- **Reimbursement of the Gas Surcharge Funds** - The CAREA is credited to account for the reimbursement of the gas surcharge funds back to the utilities, including actual interest earned in the Fund and excluding the portion of the gas surcharge funds that is collected in rates to recover the BOE/Commission’s administrative costs and any refunds paid by the BOE to customers that are exempt from the gas surcharge.

Conservation Expense Account (CEA)

Similar changes as described in the CAREA are proposed for the CEA. In addition to those changes, SoCalGas proposes to reclassify the CEA as a balancing account, subject to authorized spending limits as adopted by the Commission in connection with

SoCalGas' annual energy efficiency funding proceedings, and modify its interest calculation methodology from a period-to-date basis to an average monthly balance basis with the effective date of D.04-08-010. Prior to the implementation of AB1002, the CEA tracked the difference between program costs and authorized costs recovered in rates and is currently classified as a memorandum account in SoCalGas' Preliminary Statement. However, with the implementation of AB1002, the CEA currently tracks program costs and actual gas surcharge revenues. The interest methodology based on the average monthly balance is appropriate under the remittance/reimbursement process adopted pursuant to AB1002 and consistent with D.04-08-010 which requires utilities to pay interest at the three-month commercial paper rate on surcharge revenues in the possession of utilities before remittance to the BOE.

Research, Development, Demonstration Gas Surcharge Account (RDDGSA)

The "public interest" R&D program costs are currently balanced in SoCalGas' Research, Development, and Demonstration Expense Account (RDDEA), which also tracks "non-public interest" R&D program costs that are funded through base rates. As adopted by the Commission, public interest gas R&D are defined as gas R&D activities that are directed towards developing science or technology in which benefits accrue to California citizens and are not adequately addressed by competitive or regulated entities. SoCalGas proposes effective January 1, 2005 to modify the RDDEA to reflect the tracking of non-public interest R&D program costs and establish the RDDGSA as a balancing account to track the gas surcharge collected from non-exempt customers to fund the public interest R&D programs. Beginning January 1, 2005, the RDDGSA will track the difference between the authorized PPP R&D funding and BOE and CPUC administrative costs and the actual surcharge collected from customers. Interest recorded in the RDDGSA will be based on the billed surcharges in SoCalGas' possession prior to remittance to the BOE. Interest accumulated in the RDDGSA will be excluded from the annual update of PPP rates and held in the RDDGSA until further direction from the Commission.

Refunds to Exempt Customers

OP 4 and OP 8 provide that utilities will identify and shall return with accrued interest, any surcharge amount that was collected from exempt customers, within 60 days following the implementation of system changes required in OP 3 (i.e., requires that the gas surcharge be identified as a separate line item on customers' bills within six months of the effective date of the decision). As indicated during the workshops, SoCalGas has completed the necessary system changes to report the gas surcharge as a separate line item on customers' bills. Accordingly, SoCalGas plans to complete the refunds to exempt customers by December 31, 2004, which is considerably less than the 240 days provided in the decision. Pursuant to OP 6, SoCalGas will inform the BOE of any refunds issued.

Removal of the F&U Component from Current Surcharge Rates

OP 11 requires that utilities exclude gas surcharge amounts in determining franchise payments. Consistent with D.04-08-010, SoCalGas plans to modify its PPP surcharge rates to remove the F&U component in its upcoming October 31 filing for rates effective January 1 of the following year.

Implementation of Annual PPP Surcharge Rates

Consistent with OP 22, SoCalGas acknowledges the annual filing date for the proposed surcharge rates has been changed to October 31 from the previous filing date of September 30 for rates to be effective January 1. Accordingly, SoCalGas will be filing its update to the gas PPP rates at that time.

Protest

Anyone may protest this Advice Letter to the 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 (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

This filing was made in compliance with D.04-08-010 and has already undergone Energy Division disposition. SoCalGas respectfully requests that this advice letter become effective on October 30, 2004, as originally requested in the September 20, 2004 filing.

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 R.02-10-001.

J. STEVE RAHON
Director
Tariffs and Regulatory Accounts

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: Nena Maralit

Phone #: (213) 244-2822

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) #: 3408-A

Subject of AL: Supplement: Revisions to Tariffs in compliance with Gas Public Purpose Program
Surcharge D04-08-010

Keywords (choose from CPUC listing): Balancing Account, Memorandum Account, Public Purpose
Program

AL filing type: Monthly Quarterly Annual One-Time Other _____

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D04-08-010

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 AL¹: _____

Resolution Required? Yes No

Requested effective date: 10/30/04 No. of tariff sheets: 16

Estimated system annual revenue effect: (%): _____

Estimated system average rate effect (%): _____

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: Preliminary Statements - Parts V and VI, G-PPPS and TOCs

Service affected and changes proposed¹: _____

Pending advice letters that revise the same tariff sheets: _____

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

Southern California Gas Company

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Los Angeles, CA 90013-4957

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¹ Discuss in AL if more space is needed.

ATTACHMENT A
Advice No. 3408-A

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3408-A

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 39505-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 1	Revised 38003-G,38248- G
Revised 39506-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 6	Revised 38681-G Revised 38249-G* Revised 36082-G*
Revised 39507-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 7	Revised 38250-G* Revised 36083-G*
Revised 39508-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 8	Revised 38251-G* Revised 36083-G* 36084-G
Revised 39509-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 9	Revised 38252-G* Revised 36084-G, 36085- G
Revised 39510-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 10	Revised 38253-G*38254- G* Revised 36085-G, 36086- G
Original 39511-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 18	38003-G 38688-G
Original 39512-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 19	
Original 39513-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 20	
Revised 39514-G	PRELIMINARY STATEMENT, PART VI, DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM, Sheet 1	Revised 38259-G Revised 38003-G
Revised 39515-G	PRELIMINARY STATEMENT, PART VI, DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM, Sheet 2	Revised 38688-G
Revised 39516-G	Schedule No. G-PPPS, PUBLIC PURPOSE PROGRAMS SURCHARGE, Sheet 1	Revised 38261-G Revised 38849-G
Revised 39517-G	Schedule No. G-PPPS, PUBLIC PURPOSE PROGRAMS SURCHARGE, Sheet 2	Revised 38262-G Revised 34262-G
Original 39518-G	Schedule No. G-PPPS, PUBLIC PURPOSE PROGRAMS SURCHARGE, Sheet 3	Original 38263-G
Revised 39519-G	TABLE OF CONTENTS	Revised 39500-G
Revised 39520-G	TABLE OF CONTENTS	Revised 39501-G

PRELIMINARY STATEMENT

Sheet 1

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

A. GENERAL

Balancing accounts are those regulatory accounts where authorized expenses are compared with revenues from rates designed to recover those expenses. The resulting under or overcollection, plus interest calculated in the manner described in Preliminary Statement, Part I, is recorded on the Utility's financial statements as an asset or liability, which is owed from or due to the ratepayers. Balances in balancing accounts are to be amortized in rates.

B. LISTING OF BALANCING ACCOUNTS

- Purchased Gas Account (PGA)
- Core Fixed Cost Account (CFCA)
- Noncore Fixed Cost Account (NFCA)
- Enhanced Oil Recovery Account (EORA)
- Noncore Storage Balancing Account (NSBA)
- California Alternate Rates for Energy Account (CAREA)
- Brokerage Fee Account (BFA)
- Hazardous Substance Cost Recovery Account (HSCRA)
- Natural Gas Vehicle Account (NGVA)
- El Paso Turned-Back Capacity Balancing Account (EPTCBA)
- Gas Cost Rewards and Penalties Account (GCRPA)
- Pension Balancing Account (PBA)
- Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)
- Conservation Expense Account (CEA)
- Research Development and Demonstration Gas Surcharge Account (RDDGSA)

L
N

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3408-A
 DECISION NO. 04-08-010

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Aug 29, 2005
 EFFECTIVE Oct 30, 2004
 RESOLUTION NO. _____

PRELIMINARY STATEMENT

Sheet 6

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

NONCORE STORAGE BALANCING ACCOUNT (NSBA) (Continued)

- e. An entry equal to the authorization of the forecasted remaining balance less F&U; and,
- f. An entry equal to the interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

The balance of the NSBA shall be allocated in the Utility's cost allocation proceedings to all customers.

CALIFORNIA ALTERNATE RATES FOR ENERGY ACCOUNT (CAREA)

The CAREA is a balancing account. The purpose of this account is to balance California Alternate Rates for Energy (CARE) program expenses incurred against gas surcharge funds reimbursed from the State of California (State). The gas surcharge was established pursuant to Assembly Bill 1002 and implemented by the utilities pursuant to the Natural Gas Surcharge Decision (D.) 04-08-010. Pursuant to Commission Decision 02-07-033 effective July 17, 2002, the utility is also authorized to record all costs related to automatic enrollment, which include the CARE rate subsidy costs, utility administrative costs (including start-up and implementation), and the Commission's clearinghouse costs. These costs will be recorded as separate line items in the CAREA.

Commencing on the effective date of this tariff, Utility shall maintain the CAREA by making entries at the end of each month as follows:

- a. A debit entry equal to recorded administrative costs for the CARE program, excluding costs associated with the automatic enrollment process into the CARE Program.
- b. A debit entry equal to the recorded incremental administrative and general expenses, including Commission's allocated incremental clearinghouse costs, associated with the automatic enrollment process into the CARE Program.
- c. A debit entry equal to the recorded CARE program discounts billed for the month, excluding F&U, to customers who have not been automatically enrolled in the program.
- d. A debit entry equal to the recorded CARE program discounts billed for the month, excluding F&U, to customers who have been automatically enrolled in the program.
- e. A debit entry equal to revenue shortfalls associated with discounts to the service establishment charge adopted in D.97-04-082 and implemented in D.97-07-054 for CARE customers.

(Continued)

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 DECISION NO. 04-08-010

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PRELIMINARY STATEMENT

Sheet 8

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

BROKERAGE FEE ACCOUNT (BFA) (Continued)

Noncore Subaccount

- a. A debit entry equal to one-twelfth of the authorized annual noncore brokerage fee costs;
- b. A credit entry equal to the monthly recorded revenues collected from the noncore brokerage fee surcharge; and,
- c. An entry equal to the interest on the average of the balance in the account during the month using the interest rate described in Preliminary Statement, Part I, J herein.

HAZARDOUS SUBSTANCE COST RECOVERY ACCOUNT (HSCRA)

The HSCRA is a balancing account, which compares covered hazardous substance and insurance litigation costs related to manufacturing gas plant sites, presently identified federal Superfund sites, and other sites identified by the Utility with recoveries from third parties, insurance carriers, and ratepayers as set forth in D. 94-05-020. The HSCRA consists of five subaccounts:

- Subaccount A - Hazardous Substance Cost Subaccount - Ratepayer's 90% Share
- Subaccount B - Hazardous Substance Cost Subaccount - Shareholder's 10% Share
- Subaccount C - Insurance Litigation Cost Subaccount - Ratepayer's 70% Share
- Subaccount D - Insurance Litigation Cost Subaccount - Shareholder's 30% Share
- Subaccount E - Insurance Recovery Subaccount

Effective June 3, 1994, the following entries are recorded to the HSCRA at the end of each month:

Hazardous Substance and Insurance Litigation Costs

- a. A debit entry is recorded to Subaccount A equal to 90% of covered hazardous substance costs.
- b. A debit entry is recorded to Subaccount B equal to 10% of covered hazardous substance costs.
- c. A debit entry is recorded to Subaccount C equal to 70% of covered insurance litigation costs.
- d. A debit entry is recorded to Subaccount D equal to 30% of covered insurance litigation costs.

Ratepayer Recovery

- e. A credit entry is recorded to Subaccount A equal to the revenues collected from customers net of franchise fees and uncollectibles.

(Continued)

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PRELIMINARY STATEMENT

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

HAZARDOUS SUBSTANCE COST RECOVERY ACCOUNT (HSCRA) (Continued)

Third Party Recovery

- f. A credit entry is recorded to Subaccount A equal to 90% of recoveries from third parties.
- g. A credit entry is recorded to Subaccount B equal to 10% of recoveries from third parties.

Insurance Carrier Recovery

- h. A credit entry is recorded to Subaccount E equal to insurance recoveries net of contingency fees, if any. Each insurance recovery will be recorded separately and distributed against covered hazardous substance and insurance litigation costs on a first-in, first-out basis.
- i. A credit entry is recorded to Subaccount C equal to the lesser of 70% of insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, or the balance in Subaccount C. Subaccount C cannot have a credit balance.
- j. A credit entry is recorded to Subaccount D equal to the lesser of 30% of insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, or the balance in Subaccount D. Subaccount D cannot have a credit balance.
- k. A credit entry is recorded to Subaccount B equal to the lesser of 90% of the remaining insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, not applied in entry i. and j. above or the balance in Subaccount B.
- l. A credit entry is recorded to Subaccount A for the lesser of 10% of the remaining insurance recoveries net of contingency fees paid to outside attorneys to obtain recoveries, if any, not applied in entry i. and j. above or 11.111% of the insurance recoveries net of contingency fees paid to attorneys to obtain recoveries, if any, recorded in Subaccount B.
- m. A debit entry is recorded to Subaccount E equal to the sum of insurance recoveries allocated to Subaccount A through D in entries i. through l. above.
- n. A debit entry is recorded to Subaccount E, 72 months after receiving a specific insurance recovery for one-fifth or 20% of the balance for that specific insurance recovery in Subaccount E. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.
- o. If an entry is recorded for entry n. above, a credit entry is recorded to Subaccount A for 60% of entry n. to recognize the ratepayer's portion of the insurance recovery. The difference between entries n. and o. or 40% of entry n. is the Utility's share of the insurance recovery.
- p. A debit entry is recorded to Subaccount E, 84 months after receiving a specific insurance recovery for one-fourth or 25% of the balance for that specific insurance recovery in Subaccount E. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.

(Continued)

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PRELIMINARY STATEMENT

Sheet 10

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (continued)

HAZARDOUS SUBSTANCE COST RECOVERY ACCOUNT (continued)

Insurance Carrier Recovery (Continued)

- q. If an entry is recorded for entry p. above, a credit entry is recorded to Subaccount A for 60% of entry p. to recognize the ratepayer's portion of the insurance recovery. The difference between entries p. and q. or 40% of entry p. is the Utility's share of the insurance recovery.
- r. A debit entry is recorded to Subaccount E, 96 months after receiving a specific insurance recovery for one-third or 33.333% of the balance for that specific insurance recovery in Subaccount E. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.
- s. If any entry is recorded for entry r. above, a credit entry is recorded to Subaccount A for 60% of entry r. to recognize the ratepayer's portion of the insurance recovery. The difference between entries r. and s. or 40% of entry r. is the Utility's share of the insurance recovery.
- t. A debit entry is recorded to Subaccount E, 108 months after receiving a specific insurance recovery for one-half or 50% of the balance for that specific insurance recovery in Subaccount E. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.
- u. If an entry is recorded for entry t. above, a credit entry is recorded to Subaccount A for 60% of entry t. to recognize the ratepayer's portion of the insurance recovery. The difference between entries t. and u. or 40% of entry t. is the Utility's share of the insurance recovery.
- v. A debit entry is recorded to Subaccount E, 120 months after receiving a specific insurance recovery for any remaining portion of the specific insurance recovery in Subaccount E. The entry is only recorded if the recovery has not been fully allocated to offset covered hazardous substance and insurance litigation costs.
- w. If an entry is recorded for entry v. above, a credit entry is recorded to Subaccount A for 60% of entry v. to recognize the ratepayer's portion of the insurance recovery. The difference between entries v. and w. or 40% of entry v. is the Utility's share of the insurance recovery.
- x. An entry to Subaccounts A through E equal to interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I, J.

Upon final disposition of all covered hazardous substance and insurance litigation costs and related recoveries, any balance remaining in Subaccounts B and D will be the responsibility of the Utility.

(Continued)

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PRELIMINARY STATEMENT

Sheet 1

PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

A. GENERAL

Memorandum accounts are special accounts authorized by the Commission for the purpose of tracking certain costs and revenues. Please refer to each individual memorandum account description for the specific accounting treatment applicable to each account.

B. LISTING OF MEMORANDUM ACCOUNTS

PCB Expense Account (PCBEA)
Research Development and Demonstration Expense Account (RDDEA)
Curtailement Violation Penalty Account (CVPA)
Economic Practicality Shortfall Memorandum Account (EPSMA)
Catastrophic Event Memorandum Account (CEMA)
Vernon Avoided Distribution Cost Memorandum Account (VADCMA)
Interstate Capacity Step Down Account (ICSDA)
Vernon Rate Savings Memorandum Account (VRSMA)
Vernon Negotiated Core Contract Memorandum Account (VNCCMA)
Earthquake Valve Installation Service Memorandum Account (EVISMA)
Research Royalty Memorandum Account (RRMA)
NGV Research Development & Demonstration Memorandum Account (RDDNGV)
Intervenor Award Memorandum Account (IAMA)
Z Factor Account (ZFA)
Tax Interest Account (TIA)
Energy Efficiency/DSM Memorandum Account (EEDSMMA)
Wheeler Ridge Firm Access Charge Memorandum Account (WRFACMA)
Gas Industry Restructuring Memorandum Account (GIRMA)
Self-Generation Program Memorandum Account (SGPMA)
Baseline Memorandum Account (BMA)
Blythe Operational Flow Requirement Memorandum Account (BOFRMA)
Annual Earnings Assessment Proceeding Memorandum Account (AEAPMA)
Cost of Service Revenue Requirement Memorandum Account (COSRRMA)
El Paso Settlement Proceeds Memorandum Account (EPSPMA)

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PRELIMINARY STATEMENT

Sheet 2

PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

PCB EXPENSE ACCOUNT (PCBEA)

The PCBEA is a memorandum account recorded on the Utility's financial statements. The purpose of this account is to record all past and future costs associated with the Transwestern PCB arbitration proceeding, including capital costs. These PCB clean-up costs will be considered for rate recovery after arbitration is concluded, following a reasonableness review in an annual hazardous waste review proceeding.

Utility shall maintain the PCBEA by making entries into the account as follows:

- a. Transfer all prior costs and authorized revenues into the account,
- b. Make monthly debit entries equal to recorded PCB clean-up costs paid during the month.

RESEARCH DEVELOPMENT AND DEMONSTRATION EXPENSE ACCOUNT (RDDEA)

The RDDEA is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to track the difference between authorized costs in rates, and actual costs associated with non-public purpose research, development, and demonstration programs. D.97-07-054 (PBR) authorized SoCalGas to continue using this account through the five-year PBR period, December 31, 2002. Effective January 1, 2005 this account is to track the difference between the authorized costs in rates and actual costs associated with non-public interest research, development and demonstration programs. D.01-10-030 extended the account through December 31, 2003. D.04-12-015 on Phase I of SoCalGas' Cost of Service (COS) authorized SoCalGas to continue using this account through the four-year COS period ending December 31, 2007.

SoCalGas maintains this account by making monthly entries as follows: a) debit entries for actual research, development, and demonstration expenses; and for amortization of balances, if any, due to

(Continued)

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Schedule No. G-PPPS
PUBLIC PURPOSE PROGRAMS SURCHARGE

Sheet 1

APPLICABILITY

Applicable to all gas sales and transportation services rendered under all tariff rate schedules authorized by the Commission. Customers will have a gas public purpose program (PPP) surcharge as a separate line item on their bills unless they are exempt* (e.g. Electric Generation including cogeneration, Enhanced Oil Recovery, Wholesale service, and consumption of natural gas which California is prohibited from taxing under the United States Constitution or the California Constitution, as referenced in Section 896 of the Public Utilities Code. See also the California Energy Resources Surcharge Regulation Sections 2315 and 2316 as identifying exempt customers.) California Alternate Rates for Energy (CARE) customers will receive the surcharge excluding CARE program costs along with applicable customers receiving sales for street lighting.

TERRITORY

This schedule is applicable within the entire territory served by Utility.

RATES

<u>Customer Class</u>	<u>PPP Surcharge**</u>	
	<u>For all service, per meter, per month</u>	
	<u>CARE Customer***</u> (¢/therm)	<u>Non-CARE Customer</u> (¢/therm)
Core		
Residential	1.881	3.700
Commercial/Industrial	1.812	3.631
Gas Air Conditioning	0.073	1.892
Gas Engine	N/A	2.245
Natural Gas Vehicle	N/A	1.819
Noncore		
Commercial/Industrial	N/A	1.828

* Commission Resolution G-3303, dated December 21, 2000, references Sections 896, 897, and 898 of Assembly Bill (AB) 1002 regarding consumers of natural gas who are exempt from the tax surcharge. Section 896 states "Consumption means the use or employment of natural gas. Consumption does not include the use or employment of natural gas to generate power for sale or use of gas for enhanced oil recovery, natural gas utilized in cogeneration technology projects to produce electricity, or natural gas that is produced in California and transported on a proprietary pipeline. Consumption does not include the consumption of natural gas which this state is prohibited from taxing under the United States Constitution or the California Constitution." Section 897 states "Nothing in this article impairs the rights and obligations of parties to contracts approved by the Commission, as the rights and obligations were interpreted as of January 1, 1998." Section 898 is in reference to a municipality, district, or

(Continued)

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Schedule No. G-PPPS
PUBLIC PURPOSE PROGRAMS SURCHARGE

Sheet 2

(Continued)

SPECIAL CONDITIONS

1. General Description. The gas public purpose program (PPP) surcharge is shown on a customer's bill as a separate line item. The surcharge is authorized to recover the cost of public purpose programs such as low-income assistance, energy efficiency, and public interest research and development. The Utility remits surcharge payments quarterly to the State Board of Equalization (BOE) by the last day of the month following a calendar quarter. The BOE deposits the payments in the Gas Consumption Surcharge Fund (Fund) with the State Treasurer. Utility public purpose programs are financed through monies appropriated to the Utility from the Fund by the Commission.
2. Filing Requirements. Pursuant to Decision 04-08-010, the Utility shall file an annual advice letter, with proposed surcharge rates, by October 31, with a requested effective date of January 1 of the following year. Surcharge rates will be determined by customer class and by CARE participation. Accordingly, non-CARE customers shall be charged the CARE component of the surcharge whereas CARE customers will not be charged for this component.

The Commission will establish the gas PPP surcharge rates annually.

3. Surcharge Formula. The gas PPP surcharge rates will be calculated pursuant to the surcharge formula adopted in D.04-08-010.
4. Treatment of F&U. Franchise Fees and Uncollectibles (F&U) shall not be included in the calculation of the PPP surcharge and the utility shall exclude PPP surcharge amounts in determining franchise payments.

public agency but also references Section 890. Subdivision (e) of Section 890 states in part "The Commission shall determine the total volume of retail natural gas transported within the service territory of a utility gas provider, that is not subject to exemption pursuant to Section 896, for the purpose of establishing the surcharge rate."

** AB 1002 of September 30, 2000 authorized the Commission to establish a gas PPP surcharge. Resolution G-3329 established public purpose program surcharge rates for both CARE and Non-CARE customers and for use in calculating the surcharge payments to the BOE. The surcharge rates were removed from utility energy rates and added as line items to applicable billings effective July 1, 2001.

***Low-income customers who qualify for CARE receive a 20% discount on rates and pay all of the public purpose program costs except CARE.

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Schedule No. G-PPPS
PUBLIC PURPOSE PROGRAMS SURCHARGE

Sheet 3

(Continued)

SPECIAL CONDITIONS (Continued)

5. BOE Remittances. Per PU Code Sections 892 and 892.1, the utility remits revenues collected from the PPP surcharge to the BOE on a quarterly basis.
6. Cost and Volume Assumptions.
 - a. Interstate Pipeline Gas Throughput - The Energy Division shall obtain interstate pipeline customer gas volumes from the BOE and provide these volumes to the appropriate utilities, by September 30, for determining surcharge rates.
 - b. Administrative Costs - The Energy Division will provide the BOE and Commission's administrative costs by September 30 to include in the Utility's October 31 surcharge filings for rates effective January 1 of the following year. The Utility shall identify these administrative cost amounts in their quarterly remittances to the BOE.
 - c. R&D Program Costs - Energy Division shall provide the Utility, by September 30, with its allocation of R&D costs that were approved by the Commission for the following year.
7. PPP Surcharge Refunds. Per D.04-08-010, to prevent the issuance of duplicate refunds of PPP surcharge collection, the utility shall inform the BOE of any PPP surcharge refunds it intends to issue. The refunds will not be issued if previously made by the BOE. The utilities shall inform the BOE of any refunds that they issue. The utility will annually review its customer accounts to determine if any refunds are warranted.
8. Distribution and Treatment of Amounts Received from the Gas Consumption Surcharge Fund. Per D.04-08-010, all funds remitted to the BOE are to be returned to the utility in a timely manner, except for R&D funds (excluding R&D funds to reimburse the utility for R&D activities conducted in 2004), BOE and Commission administration costs, and deductions for any refunds issued by the BOE. Non-exempt interstate pipeline customer remittances to the BOE are to be returned to the public utility in whose service territory the customer resides. All amounts received from the Gas Consumption Surcharge Fund are to be recorded to the appropriate PPP balancing accounts.
9. Interim Rate Changes. The Utility may also request via advice letter to change surcharge rates during the year only if failure to make the rate change would result in a forecasted total rate increase of 10% or more on January 1 of the following year. The Utility shall file the advice letter at least 40 days prior to the beginning of the next quarter with an effective date to be determined by the Energy Division in consultation with the BOE.

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