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Advice No. 3427
(U 904 G)

Public Utilities Commission of the State of California

Subject: Carryover of Unspent Research Development and Demonstration (R&D) Base Margin Funds – Period of August 1997 through December 2003

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) a request to transfer unspent funds from the program cycle authorized by PBR Decision (D.) 97-07-054 and ending with the new cycle to be effective with the implementation of the 2004 Cost of Service (COS) application (A.02-12-027).

Purpose

SoCalGas requests authorization to carryover \$2 million of unspent R&D base margin funds¹ recorded in the Research, Development, and Demonstration Expense Account (RDDEA) for the period of August 1997 through December 2003 to fund a payment related to a R&D project approved in 2003 that was not paid until early 2004.

Background

In Decision 90-01-016, the Commission authorized SoCalGas to establish the RDDEA as a one-way balancing account that tracks the difference between authorized costs funded in rates and actual expenses associated with R&D programs over the rate case cycle. At the end of the period, the Commission established that any cumulative underspending would be refunded to ratepayers or credited towards future expenses.

SoCalGas' PBR Decision authorized the current RDDEA program cycle for five years through the end of 2002, and was extended through 2003 pursuant to D.01-10-030. With the delay in deciding the 2004 COS application, the Commission issued D.03-12-057 approving SoCalGas' request to establish a memorandum account to record the difference in authorized base margin revenues recovered in the current 2004 rates and the final

¹ SoCalGas' RDDEA also records R&D public interest funds, which are excluded from this filing as these funds are authorized as part of the PPP surcharge rates established with the implementation of AB1002 on January 1, 2001.

revenue requirement for 2004 to be adopted in the 2004 COS proceeding. As a result, the new program cycle for the RDDEA will be established retroactively to begin January 1, 2004.

Table 1					
Research, Development, and Demonstration Funds ¹					
(M\$)					
Years	Authorized Revenues	Actual Expenses	Over / (Under) Spent	Interest	Accumulated Over / (Under) Spent
1997-2003	52,467	47,395	(5,072)	(657)	(5,729)
Fund request to transfer to 2004					2,000
Remaining balance for amortization in future rates					(3,729)

As part of SoCalGas' project funding and approval process, projects can be authorized and established in one year while the majority of the costs are incurred in the following year. However, as authorized by the Commission, the RDDEA tracks authorized revenues and actual costs on a cycle basis, thereby matching R&D costs to the appropriate cycle. In early 2003, SoCalGas began evaluating a new potential R&D project opportunity for \$2 million with Stirling Thermal Motor Power Inc. (STM), a developer of stirling engine products. SoCalGas conducted extensive due diligence throughout 2003. A decision to invest was finally made and SoCalGas completed contract negotiations in November 2003. A few last minute changes in the contract terms caused a slight delay in finalizing the deal, and contract documents were signed in January 2004. As a result, the \$2 million cost for this R&D project was paid in early 2004 although all due diligence and contract negotiations were completed in 2003.

Pursuant to D.03-12-057, the new R&D program cycle will begin in 2004 with the current cycle ending on December 31, 2003. However, as a result of the project payment being delayed to 2004, the \$2 million R&D project cost would otherwise be recorded in the new program cycle in accordance with SoCalGas' established regulatory accounting treatment. SoCalGas considers this project part of its funding appropriations for 2003, and therefore proposes that a portion of the 2003 under spent balance at December 31, 2003 be used to cover this project payment.

SoCalGas believes that including the STM project expense in the new balancing account program cycle would cause a significant burden on its R&D project plans for 2004 and beyond. SoCalGas already expects to exceed its anticipated authorized funding level in the first year of the new COS cycle, 2004. With the STM cost representing 25% of SoCalGas' anticipated annual funding, by including this expense in the total costs for 2004, SoCalGas will begin the new program cycle in an already significantly overspent position by the end of 2004.

For the reason discussed above, SoCalGas requests authorization to carry over \$2 million of the \$5.7 million overcollection accumulated for the program cycle ending as of December 31, 2003 to the new cycle beginning January 1, 2004 to fund this project cost. SoCalGas believes that this is appropriate in order to properly match expenses with

authorized revenues within the same program cycle and to not burden SoCalGas' R&D program efforts at the start of the new program cycle.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other schedule or rule.

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 (inj@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 December 31, 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.

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Attachments

ATTACHMENT A

Advice No. 3427

(See Attached Service List)

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