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January 11, 2005

Advice No. 3453
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Establishment and Modification of the Regulatory Account
Mechanisms in compliance with Decision 04-12-015**

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) revisions to SoCalGas' tariff schedules, applicable throughout its service territory, as shown on Attachment B.

Purpose

This filing revises Preliminary Statement, Part V, Description of Regulatory Accounts – Balancing, and establishes the Pension Balancing Account (PBA) and Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA) and revises the Natural Gas Vehicle Account (NGVA). This filing also revises the Research, Development and Demonstration Expense Account (RDDEA) and eliminates the Z-Factor treatment of fumigation-related costs.

Background

On December 2, 2004, the Commission issued Decision (D.) 04-12-015 and adopted the Settlement Agreement regarding SoCalGas' revenue requirements phase (Phase I) Cost of Service (COS) application for Test Year 2004. The Settlement Agreement resolved all issues raised by the Settling Parties with the exception of the method of recovery of fumigation-related costs and the gas resource plan. D.04-12-015 resolves the first issue and provides that fumigation-related costs should be recovered in base rates but defers the gas resource plans to the next BCAP.

Consistent with the Settlement Agreement, the following regulatory account mechanisms are being established or modified:

Establishment of New Regulatory Accounts

- Pension Balancing Account (PBA) – In accordance with the Settlement Agreement, SoCalGas establishes the PBA to balance the difference between forecasted pension costs recovered in rates and the corresponding actual

minimum contributions, with the exception that if actual annual contributions exceeds the forecasted annual amounts shown on Appendix III of Exhibit 12 of SoCalGas' COS application, only 80% of the current year's overfunding is recorded in the PBA. The remaining 20% shall be funded by shareholders and will be an exclusion to SoCalGas' PBR Sharing mechanism.

- Post Retirement Benefits Other than Pensions Balancing Account (PBOPBA) – Consistent with the Settlement Agreement, SoCalGas establishes the PBOPBA to balance the difference between forecasted PBOP costs recovered in rates and the corresponding tax-deductible PBOP contributions. In addition, consistent with Decision 92-12-015 which initially adopted the PBOP regulatory mechanism, the PBOPBA balance will be limited to the revenue requirements recovery of the lesser of PBOP costs calculated under Financial Accounting Standards (FAS) 106 and actual tax-deductible contributions made to the PBOP Trust.

Modified Regulatory Accounts

- Natural Gas Vehicle Account (NGVA) – Pursuant to D.02-12-056, the funding of utilities' Low Emission Vehicle (LEV) program was extended through December 31, 2002 and provided that "mandatory" costs (e.g., acquisition of alternative fleet use vehicles, operation and maintenance costs associated with the use of alternative fuel use fleet vehicles and associated infrastructure, infrastructure, employee training, etc.) would be reviewed in each utility's general rate case or cost-of-service proceeding. D.03-10-086 extended the funding of the LEV program through December 31, 2005 and approved the funding for the discretionary aspects (e.g., customer service, training, and other "non-mandatory" costs) of the LEV program.

With the issuance of a decision on SoCalGas' Phase I COS, which incorporated the mandatory costs associated with the LEV program, SoCalGas proposes to modify the NGVA to record only discretionary program costs effective January 1, 2004.

- Research, Development, and Demonstration Expense Account (RDDEA)

SoCalGas proposes to modify its RDDEA to reflect the adoption of the \$8 million annual revenue requirement for base margin RDD expenditures applicable to the 2004-2007 rate case cycle. Consistent with the current procedures, the Settlement Agreement makes the revenue requirement amount subject to one-way balancing account treatment and any underspending will be returned to ratepayers or disposed of as authorized by the Commission.

Z Factor Account (ZFA) - Fumigation Costs

Pursuant to Resolution G-3344, SoCalGas was allowed to temporarily apply Z-Factor treatment to recover the cost of providing gas shut-off and restoration services in connection with fumigation jobs. The Z-Factor mechanism allows SoCalGas to track costs in excess of a \$5 million deductible per Z-Factor event which are defined as exogenous and unforeseen events beyond SoCalGas' control that have a material impact on SoCalGas' costs. The initial entry to the ZFA was recorded in May 2004 as the \$5 million deductible was met. As of October 31, 2004, \$2.2 million was recorded in the ZFA.

Pursuant to D.04-12-015, the costs associated with fumigation will be recovered through base rates effective January 1, 2004 and not through a separate fee to fumigators or customers. Accordingly, SoCalGas proposes to reverse the entire balance recorded in the ZFA since the \$5 million deductible was not triggered until May 2004 and terminate Z-Factor treatment of fumigation-related costs.

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
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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.

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Effective Date

SoCalGas respectfully requests that this advice letter be approved on February 20, 2005, 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 SoCalGas' COS A.02-12-027.

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ATTACHMENT B
Advice No. 3453

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 38681-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 1	Revised 35874-G*
Revised 38682-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 11	Revised 34682-G
Revised 38683-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 12	Original 35770-G Revised 34682-G
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Original 38686-G	PRELIMINARY STATEMENT, PART V, DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING, Sheet 16	
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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)

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PRELIMINARY STATEMENT

Sheet 11

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

NATURAL GAS VEHICLE ACCOUNT (NGVA)

The NGVA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance actual natural gas vehicle (NGV) program costs with actual NGV program net revenues. D.92-01-021 (NGV Pilot) established the NGVA, and D.95-11-035 (Low Emission Vehicles) authorized SoCalGas to continue using this account for the six-year NGV program period of December 21, 1995, through December 20, 2001. Resolution G-3322 authorized SoCalGas to continue to use this account through December 31, 2002. D.03-10-086 extended the NGVA through December 31, 2005 and authorized the funding levels for "discretionary" program costs such as customer service, training, research and development and other "non-mandatory" program costs. Pursuant to D.02-12-056, "mandatory" program costs such acquisition costs of alternative fuel use fleet vehicles and supporting infrastructure were to be reviewed in each utility's GRC or cost-of-service proceeding. Pursuant to SoCalGas' Phase I Cost of Service Decision 04-12-015, the 2004 base margin revenue requirement included recovery of NGV mandatory costs. As a result, the NGVA shall only record discretionary program costs effective January 1, 2004.

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In addition to the ratepayer-funded NGV program authorized by D.95-11-035, Resolution G-3191a authorized a throughput sharing mechanism for ratepayers and SoCalGas shareholders. In return for shareholder-funded NGV promotional expenses, shareholders get a portion of the revenue on throughput above a schedule proscribed in Resolution G-3191a.

On a monthly basis, effective January 1, 2004, SoCalGas will maintain the NGVA by making the following entries:

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a. A debit entry equal to discretionary program support costs such as customer service, training, and other "non-mandatory" program costs;

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b. A credit entry equal to NGV revenues;

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c. A debit entry equal to the cost of gas, company use and unaccounted for gas costs, and electricity costs associated with making CNG, if any;

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d. A debit entry equal to the NGV incentive calculated under the throughput sharing mechanism adopted by the Commission;

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e. An entry to amortize the forecasted balance in the account;

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f. An entry equal to the interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I, J.

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PRELIMINARY STATEMENT

Sheet 12

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

NATURAL GAS VEHICLE ACCOUNT (NGVA) (Continued)

In each BCAP filing, SoCalGas will reconcile this account and adjust rates as needed. If there is a balance due from (to) ratepayers, pursuant to Commission order, SoCalGas will increase (decrease) rates to recover the balance. However, since program spending in 2002 through 2005 is limited to the amounts authorized in Resolution G-3322 and in D.03-10-086 and over-expenditures may not be recovered from ratepayers, shareholders absorb the balance in the event actual expenses exceed authorized levels.

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EL PASO TURNED-BACK CAPACITY BALANCING ACCOUNT (EPTCBA)

The EPTCBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance costs associated with the subscription, retention and disposition of turned-back capacity on the El Paso Natural Gas Company (El Paso) interstate pipeline and any proceeds realized from brokering such capacity. Pursuant to D.02-07-037 SoCalGas will maintain the EPTCBA by making entries at the end of each month as follows:

- a. A debit entry equal to the Utility's recorded payments associated with the subscription, retention and disposition of turned-back El Paso interstate pipeline capacity;
- b. A credit entry equal to the recorded proceeds realized from the brokering of turned-back El Paso interstate pipeline capacity; 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.

Amounts recorded in the EPTCBA associated with subscription to turned-back capacity on El Paso interstate pipeline are pre-approved pursuant to D.02-07-037 provided that such capacity obtained is at no more than the maximum tariffed transportation rate on the El Paso interstate pipeline. Rate recovery of any balance recorded in the EPTCBA will be determined in Phase II of OIR 02-06-041.

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PRELIMINARY STATEMENT

Sheet 16

PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS BALANCING ACCOUNT (PBOPBA)

The PBOPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the actual annual PBOP costs embedded in authorized rates with the lesser of the PBOP costs calculated in accordance with the Financial Accounting Standards (FAS) 106 or based on actual tax-deductible contributions to the PBOP Trust. Consistent with Decision 92-12-015 which initially adopted the PBOP regulatory mechanism, SoCalGas will maintain the PBOPBA by making entries at the end of each month as follows:

O&M Component

- a. A debit/credit entry equal to the difference between:
 - 1. One-twelfth of the Utility's annual PBOP funding level currently embedded in rates, reduced by the component of authorized PBOP costs capitalized to utility ratebase and
 - 2. Actual tax-deductible PBOP contributions to the PBOP Trust, reduced by the component of PBOP costs capitalized to utility ratebase;

Depreciation/Return Component – Current Year

- b. A debit/credit entry equal to the difference, prorated for the year, between:
 - 1. One-twelfth of the current year's revenue requirement embedded in authorized depreciation, including the return associated with the authorized PBOP costs capitalized to utility ratebase and
 - 2. The current month's actual PBOP costs embedded in recorded depreciation, including the return associated with the actual PBOP costs capitalized to utility ratebase;

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PRELIMINARY STATEMENT

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PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

POST-RETIREMENT BENEFITS OTHER THAN PENSIONS BALANCING ACCOUNT (PBOPBA)
(Continued)

Depreciation/Return Component – Prior Year(s) [i.e., beginning with the initial year of the cost of service period]

c. A debit/credit entry equal to the difference between:

1. One-twelfth of the prior years' revenue requirement embedded in authorized depreciation, including the return associated with the unamortized balance of authorized PBOP costs capitalized to utility ratebase in prior years and
2. The corresponding PBOP costs embedded in recorded depreciation, including the return associated with the unamortized balance of actual PBOP costs capitalized to utility ratebase in prior years;

Other Adjustments

d. A debit or credit entry for amortization of PBOP refund / recovery in rates;

e. If actual PBOP contributions exceed PBOP costs calculated under FAS 106, a credit entry shall be made equal to the corresponding PBOP component differences associated with O&M, depreciation and return;

f. 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.

The PBOPA balance is limited to the revenue requirements recovery of PBOP costs calculated under FAS 106 and the revenue requirements based on the actual annual contributions to the PBOP trust. In addition, for the entries described above other than entry d. and f., authorized and actual PBOP costs shall be adjusted for the applicable intercompany PBOP costs billed to or charged from SoCalGas' affiliated companies. Disposition of any balance recorded in the PBOPBA will be recovered/refunded in connection with SoCalGas' next cost of service or general rate case proceeding.

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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

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PRELIMINARY STATEMENT

Sheet 3

PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

RESEARCH DEVELOPMENT AND DEMONSTRATION EXPENSE ACCOUNT (RDDEA)

(Continued)

ratepayers from prior program cycles where actual expenses fell short of authorized levels; and b) a credit entry for authorized costs being collected in rates.

At the end of the cost of service or general rate case period, SoCalGas will reconcile this account and adjust rates as needed. If there is a balance due to ratepayers, pursuant to Commission order, SoCalGas will return the balance plus interest to ratepayers via lower rates or will carry the balance forward to offset expenses in future proceedings. Since program spending is limited and over-expenditures may not be recovered from ratepayers, shareholders absorb the balance in the event actual expenses exceed authorized levels.

CURTAILMENT VIOLATION PENALTY ACCOUNT (CVPA)

The CVPA is a memorandum account. The purpose of this account is to record actual revenues from the assessment of penalties for violation of curtailment, and expenses associated with installation of electronic metering for curtailment monitoring.

Commencing on August 1, 1991, Utility shall maintain CVPA by making entries at the end of each month as follows:

- a. A credit entry equal to all curtailment penalty charges collected, and
- b. A debit entry equal to recorded expenditures for installation of electronic metering for purpose of curtailment monitoring.

ECONOMIC PRACTICALITY SHORTFALL MEMORANDUM ACCOUNT (EPSMA)

The EPSMA is a memorandum account. The purpose of this account is to record the shortfall in revenue which occurs in the Core Fixed Cost Account (CFCA) as a result of large core customers being transferred from core service to noncore service by way of economic practicality during the period January 1, 1994 through the revision date of the Utility's next cost allocation proceeding.

Utility shall maintain the EPSMA by making entries at the end of each month as follows:

- a. A debit entry equal to the revenue shortfall for the month calculated as the product of (1) all service quantities transferred to noncore service by way of economic practicality during the period of January 1, 1994 and the revision date of the Utility's next cost allocation proceeding and (2) the difference between the otherwise applicable core rate and the applicable noncore rate for such quantities.

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