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STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Tel. No. (415) 703-1691

May 5, 2005

Advice Letter 3484

RECEIVED
MAY 9 2005
TARIFF ADM.

Mr. Sid Newsom
Southern California Gas Co.
555 West Fifth Street GT14D6
Los Angeles, CA 90013-1011

Subject: Tariff Revisions to Implement the Post-Test Year Ratemaking Mechanisms Adopted in Decision 05-13-023

Dear Mr. Newsom:

Advice Letter 3484 is effective May 11, 2005. A copy of the advice letter is sent herewith for your records.

Sincerely,

Sean H. Gallagher
Director
Energy Division

J. Steve Rahon
Director
Tariffs & Regulatory Accounts

8315 Century Park Ct.
San Diego, CA 92123-1550
Tel: 858.654.1773
Fax 858.654.1788
srahon@SempraUtilities.com

April 1, 2005

Advice No. 3484
(U 904 G)

Public Utilities Commission of the State of California

Subject: Tariff Revisions to Implement the Post-Test Year Ratemaking Mechanisms Adopted in Decision 05-03-023

Southern California Gas Company (SoCalGas) hereby submits for filing with the California Public Utilities Commission (Commission) revisions to SoCalGas' tariff schedules, applicable throughput its service territory, as shown on Attachment B. This filing is made in compliance with Ordering Paragraph No. 1 of Decision (D.) 05-03-023, dated March 17, 2005, in Phase 2 of SoCalGas' Cost of Service Application (A.) 02-12-027.

Purpose

This filing revises Preliminary Statement, Part XI, Performance Based Regulation (PBR).

Cost of Service – Phase 2

On March 17, 2005, the Commission issued D.05-03-023 adopting the Settlement Agreement (SA), with some minor modifications, on Southern California Gas Company (SoCalGas) and San Diego Gas & Electric's (SDG&E) Phase 2 post-test year ratemaking, earnings sharing, and incentive proposals. These mechanisms will remain in effect until the next general rate case for Test Year 2008. The earnings sharing and incentive mechanisms shall be effective from 2005 onwards until modified or terminated by further action of the Commission.

Consistent with Settlement Agreement and modifications adopted in D.05-03-023, the following post-test year mechanisms are being established or modified:

Indexing Method

The post-test year adjustment to authorized base margin shall be based on the most recent Consumer Price Index (CPI) forecast, subject to a minimum (i.e., floor CPI) and a maximum (i.e., ceiling CPI) that change annually. As modified by D.05-03-023, in establishing the subsequent year's base margin revenue requirements, the prior years' authorized base margin shall be recalibrated to reflect actual index values subject to the floor and ceiling.

Sharing Mechanism

SoCalGas implements a sharing mechanism whereby utility shareholder and ratepayers would share earnings for an achieved rate of return above the authorized rate of return (ROR), up to 300 basis points (3%). Shareholders will retain 100% of the earnings up to 50 basis points (0.50%) above the authorized rate of return. Between 50 and 300 basis points, there are six bands where there will be sharing of earnings between shareholders and ratepayers. If SoCalGas achieves a ROR of more than 300 basis points above or below the authorized ROR, such an event would trigger an automatic suspension and formal review by the Commission of SoCalGas' PBR sharing mechanism. At 175 basis points or more below SoCalGas' authorized ROR, the utility may file for an automatic review of the mechanism. At 175 basis points or more above SoCalGas' authorized ROR, the Office of Ratepayer Advocates or any other party may file for an automatic review of the mechanism.

Cost of Capital

SoCalGas continues to maintain its current MICAM mechanism with certain modifications as described in the SA. The MICAM mechanism adjusts the cost of capital in post-test year rates and is triggered when actual interest rates change by more than 150 basis points (1.5%) from the benchmark rate and the then-current Global Insight forecast for twelve months ahead interest rates is at least +150 basis points from the benchmark interest rate. Under this mechanism, a change in margin and authorized rate of return used in the earnings sharing calculation is allowed to reflect the change in the cost of capital.

Z-Factor

SoCalGas continues to maintain its current Z-Factor mechanism which provides for the recovery of reasonable costs incurred by SoCalGas in connection with unexpected and uncontrollable events (i.e., Z-Factor events). The recovery of costs in post-test year rates is subject to a $5 million deductible per Z-Factor event.

Performance Indicators

SoCalGas implements the performance indicator incentive mechanisms as adopted in D.05-03-023. The total performance indicator reward or penalty in any year of the PBR mechanism, beginning in 2005, shall not exceed $8.1 million.

SoCalGas is authorized PBR performance indicators which will be measured to ensure appropriate service quality levels and employee safety. For each of the performance indicators, there is a deadband for which no reward or penalty will apply. Performance beyond the deadband will trigger a reward or penalty up to a maximum amount.

Service Guarantee Program

SoCalGas implements a service guarantee program for missed appointments as adopted in D.05-03-023. SoCalGas will provide a credit to a customer's account if the company is unable to meet an appointment commitment with a customer for services at the customer's premises when access is required. SoCalGas is not required to provide the credit if the customer is notified at least four hours before the end of the appointment period.

Cost of Service Revenue Requirement Memorandum Account (COSSRMA)

In accordance with D.03-12-057, SoCalGas established the Cost of Service Revenue Requirement Memorandum Account (COSRRMA) to track the shortfall or overcollection between current revenues and the revenue requirement eventually adopted in Phase 1 of SoCalGas' COS application for the period from January 1, 2004 through the date of the adopted decision. D.04-12.009 extended the interim rate relief beyond 2004 until the date of the adopted decision on Phase 2 of the COS proceeding.

With the issuance of D.05-03-023, SoCalGas proposes to include the balance of the COSRRMA in its annual regulatory account update on October 15, 2005. The balance will be amortized in rates effective January 1, 2006 on an equal percent of marginal cost basis.

Revisions to the Preliminary Statement, Part XI, PBR

The proposed Preliminary Statement, Part XI, as shown in Attachment B, incorporates the Preliminary Statement tariff sheets that were approved as Attachment A to the Settlement Agreement with modifications in compliance with D.05-03-023. The proposed revision entirely replaces the current PBR tariff with the exception of the following: 1) Section K, Core Pricing Flexibility, from the current Preliminary Statement, Part XI, is added to the proposed Preliminary Statement also as Section K, and remains unchanged, and 2) the first part of current Section L, Ratemaking Proceedings, entitled Biennial Cost Allocation Proceeding (BCAP), which contains Noncore Competitive Load Growth Opportunities - Revenue Treatment, is now a new Section L. Neither the Core Pricing Flexibility or Noncore Competitive Load Growth Opportunity programs were affected by the Settlement Agreement, and are therefore continued. Additionally, current Section I, Treatment of DSM Programs, current Section J, Treatment of Research, Development and Demonstration Programs, and current Section M, Monitoring and Evaluation, are deleted as they are no longer relevant.

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 (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 May 11, 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.

J. STEVE RAHON
Director
Tariffs and Regulatory Accounts

Attachments

ATTACHMENT A

Advice No. 3484

(See Attached Service Lists)

ACN Energy
Gary Morrow
GMorrow@acninc.com

ACN Energy
Tony Cusati
tony.cusati@acnenergy.com

ACN Inc.
Glenn Kinser
gkinser@acninc.com

Aglet Consumer Alliance
James Weil
jweil@aglet.org

Alcantar & Kahl
Elizabeth Westby
egw@a-klaw.com

Alcantar & Kahl
Kari Harteloo
klc@a-klaw.com

BP Amoco, Reg. Affairs
Marianne Jones
501 West Lake Park Blvd.
Houston, TX 77079

BP EnergyCo.
J. M. Zaiontz
Zaiontj@bp.com

Barkovich & Yap
Catherine E. Yap
ceyap@earthlink.net

Beta Consulting
John Burkholder
burkee@cts.com

CPUC
Consumer Affairs Branch
505 Van Ness Ave., #2003
San Francisco, CA 94102

CPUC
Energy Rate Design & Econ.
505 Van Ness Ave., Rm. 4002
San Francisco, CA 94102

CPUC
R. Mark Pocta
rmp@cpuc.ca.gov

California Energy Market
Lulu Weinzimer
luluw@newsdata.com

Calpine Corp
Avis Clark
aclark@calpine.com

City of Anaheim
Ben Nakayama
Public Utilities Dept.
P. O. Box 3222
Anaheim, CA 92803

City of Azusa
Light & Power Dept.
215 E. Foothill Blvd.
Azusa, CA 91702

City of Banning
Paul Toor
P. O. Box 998
Banning, CA 92220

City of Burbank
Fred Fletcher/Ronald Davis
164 West Magnolia Blvd., Box 631
Burbank, CA 91503-0631

City of Colton
Thomas K. Clarke
650 N. La Cadena Drive
Colton, CA 92324

City of Lompoc
H. Paul Jones
100 Civic Center Plaza
Lompoc, CA 93438

City of Long Beach, Gas Dept.
Chris Garner
2400 East Spring Street
Long Beach, CA 90806-2385

City of Los Angeles
City Attorney
200 North Main Street, 800
Los Angeles, CA 90012

City of Pasadena
Manuel A. Robledo
150 S. Los Robles Ave., #200
Pasadena, CA 91101

City of Riverside
Joanne Snowden
jsnowden@riversideca.gov

City of Vernon
Daniel Garcia
dgarcia@ci.vernon.ca.us

County of Los Angeles
Stephen Crouch
1100 N. Eastern Ave., Room 300
Los Angeles, CA 90063

Crossborder Energy
Tom Beach
tomb@crossborderenergy.com

Pat Darish
pdarish@acninc.com

Davis Wright Tremaine, LLP
Christopher Hilen
chrishilen@dwt.com

Davis Wright Tremaine, LLP
Edward W. O'Neill
One Embarcadero Center, #600
San Francisco, CA 94111-3834

Davis, Wright, Tremaine
Judy Pau
judypau@dwt.com

Dept. of General Services
Celia Torres
celia.torres@dgs.ca.gov

Douglass & Liddell
liddell@energyattorney.com

Dan Douglass
douglass@energyattorney.com

Downey, Brand, Seymour & Rohwer
Ann Trowbridge
atrowbridge@downeybrand.com

Downey, Brand, Seymour & Rohwer
Dan Carroll
dcarroll@downeybrand.com

Duke Energy North America
Melanie Gillette
mlgillette@duke-energy.com

Dynegy
Joseph M. Paul
jmpa@dynegy.com

Gas Purchasing
BC Gas Utility Ltd.
16705 Fraser Highway
Surrey, British Columbia, V3S 2X7

General Services Administration
Facilities Management (9PM-FT)
450 Golden Gate Ave.
San Francisco, CA 94102-3611

Goodin, MacBride, Squeri, Ritchie & Day, LLP
J. H. Patrick
hpatrick@gmssr.com

Goodin, MacBride, Squeri, Ritchie & Day, LLP
James D. Squeri
jsqueri@gmssr.com

Jacqueline Greig
jnm@cpuc.ca.gov

Hanna & Morton
Norman A. Pedersen, Esq.
npedersen@hanmor.com

David Huard
dhuard@manatt.com

Imperial Irrigation District
K. S. Noller
P. O. Box 937
Imperial, CA 92251

JBS Energy
Jeff Nahigian
jeff@jbsenergy.com

Jeffer, Mangels, Butler & Marmaro
2 Embarcaero Center, 5th Floor
San Francisco, CA 94111

Kern River Gas Transmission Company
Janie Nielsen
Janie.Nielsen@KernRiverGas.com

LADWP
Nevenka Ubavich
nevenka.ubavich@ladwp.com

LADWP
Randy Howard
P. O. Box 51111, Rm. 956
Los Angeles, CA 90051-0100

Law Offices of Diane I. Fellman
Diane Fellman
difellman@fellmanlaw.com

Law Offices of William H. Booth
William Booth
wbooth@booth-law.com

Luce, Forward, Hamilton & Scripps
John Leslie
jleslie@luce.com

MRW & Associates
Robert Weisenmiller
mrw@mrwassoc.com

March Joint Powers Authority
Lori Stone
PO Box 7480,
Moreno Valley, CA 92552

Matthew Brady & Associates
Matthew Brady
matt@bradylawus.com

National Utility Service, Inc.
Jim Boyle
One Maynard Drive, P. O. Box 712
Park Ridge, NJ 07656-0712

ORA
Galen Dunham
gsd@cpuc.ca.gov

PG&E
Anita Smith
aws4@pge.com

PG&E
Sue Shaw
sxs9@pge.com

PG&E
Todd Novak
tsn2@pge.com

PG&E
Sharon Tatai
skt2@pge.com

Pacific Gas & Electric Co.
John Clarke
jpc2@pge.com

Praxair Inc
Rick Noger
rick_noger@praxair.com

Questar Southern Trails
Lenard Wright
Lenard.Wright@Questar.com

Regulatory & Cogen Services, Inc.
Donald W. Schoenbeck
900 Washington Street, #780
Vancouver, WA 98660

Richard Hairston & Co.
Richard Hairston
hairstonco@aol.com

Southern California Edison Co
Fileroom Supervisor
2244 Walnut Grove Ave., Room 290, GO1
Rosemead, CA 91770

Southern California Edison Co
Karyn Gansecki
601 Van Ness Ave., #2040
San Francisco, CA 94102

Southern California Edison Co.
Colin E. Cushnie
Colin.Cushnie@SCE.com

Southern California Edison Co.
John Quinlan
john.quinlan@sce.com

Southern California Edison Co.
Kevin Cini
Kevin.Cini@SCE.com

Southern California Edison Company
Michael Alexander
Michael.Alexander@sce.com

Southwest Gas Corp.
John Hester
P. O. Box 98510
Las Vegas, NV 89193-8510

Suburban Water System
Bob Kelly
1211 E. Center Court Drive
Covina, CA 91724

Sutherland, Asbill & Brennan
Keith McCrea
kmccrea@sablaw.com

TURN
Marcel Hawiger
marcel@turn.org

TURN
Mike Florio
mflorio@turn.org

The Mehle Law Firm PLLC
Colette B. Mehle
cmehle@mehlelaw.com

Transwestern Pipeline Co.
Kelly Allen
kelly.allen@enron.com

Vandenberg AFB
Ken Padilla
ken.padilla@vandenberg.af.mil

Western Manufactured Houseing Communities Assoc.
Sheila Day
sheila@wma.org

ADAMS ELECTRICAL SAFETY CONSULTING
WILLIAM P. ADAMS
716 BRETT AVENUE
ROHNERT PARK, CA 94928-4012

ALCANTAR & KAHL LLP
MICHAEL ALCANTAR
mpa@a-klaw.com

ENDEMAN, LINCOLN, TUREK & HEATER LLP
JAMES C. ALLEN
jallen@elthlaw.com

CALIF PUBLIC UTILITIES COMMISSION
Joyce Alfton
alf@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Paul Angelopulo
pfa@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Bernard Ayanruoh
ben@cpuc.ca.gov

BARKOVICH & YAP, INC.
BARBARA R. BARKOVICH
brbarkovich@earthlink.net

SAN LUIS OBISPO MOTHERS FOR PEACE
ROCHELLE BECKER
rochelle489@charter.net

MC CARTHY & BERLIN, LLP
C. SUSIE BERLIN
sberlin@mccarthylaw.com

MANATT, PHELPS & PHILLIPS, LLP
ROGER A. BERLINER
rberliner@manatt.com

THE GREENLINING INSTITUTE
ITZEL BERRIO
iberrio@greenlining.org

SOUTHWEST GAS COMPANY
ANDREW WILSON BETTWY
andy.bettwy@swgas.com

LAW OFFICE OF WILLIAM H. BOOTH
WILLIAM H. BOOTH
wbooth@booth-law.com

ELLISON, SCHNEIDER & HARRIS, LLP
ANDREW B. BROWN
abb@eslawfirm.com

LATINO ISSUES FORUM
SUSAN E. BROWN
lifcentral@lif.org

MCCRACKEN, BYERS & HAESLOOP
DAVID J. BYERS, ESQ.
dbyers@landuselaw.com

CALIF PUBLIC UTILITIES COMMISSION
Valerie Beck
vjb@cpuc.ca.gov

NATURAL RESOURCES DEFENSE COUNCIL
SHERYL CARTER
scarter@nrdc.org

LOS ANGELES UNIFIED SCHOOL DISTRICT
ANDREW S. CHEUNG
andrew.cheung@lausd.net

CITY AND COUNTY OF SAN FRANCISCO
JOSEPH PETER COMO
joe.como@sfgov.org

GOODIN MACBRIDE SQUERI RITCHIE & DAY LLP
BRIAN T. CRAGG
bcragg@gmssr.com

CALIF PUBLIC UTILITIES COMMISSION
Michael S Campbell
msc@cpuc.ca.gov

WESTERN MANUFACTURED HOUSING COMMUNITIES
SHEILA DEY
sheila@wma.org

DOUGLASS & LIDDELL
DANIEL W. DOUGLASS
douglass@energyattorney.com

CALIF PUBLIC UTILITIES COMMISSION
Paul Douglas
psd@cpuc.ca.gov

THE TUILITY REFORM NETWORK
DANIEL EDINGTON
dedington@turn.org

CALIF PUBLIC UTILITIES COMMISSION
Phillip Enis
pje@cpuc.ca.gov

LAW OFFICES OF DIANE I. FELLMAN
DIANE I. FELLMAN
difellman@fellmanlaw.com

THE UTILITY REFORM NETWORK
ROBERT FINKELSTEIN
bfinkelstein@turn.org

STEEFEL, LEVITT & WEISS, P.C.
MARK FOGELMAN
mfogelman@steefel.com

THE UTILITY REFORM NETWORK
MATTHEW FREEDMAN
freedman@turn.org

DEPARTMENT OF THE NAVY
NORMAN J. FURUTA
norman.furuta@navy.mil

CALIF PUBLIC UTILITIES COMMISSION
Julie A Fitch
jf2@cpuc.ca.gov

LATINO ISSUES FORUM
ENRIQUE GALLARDO
enriqueg@lif.org

MANFRED F. GILDNER
barontramp@aol.com

THE GREENLINING INSTITUTE
ROBERT GNAIZDA
robertg@greenlining.org

PACIFIC GAS AND ELECTRIC COMPANY
PATRICK G. GOLDEN
pgg4@pge.com

THE UTILITY REFORM NETWORK
HAYLEY GOODSON
hayley@turn.org

LOWE'S COMPANIES, INC.
JEFFREY E. GRAY
jeff.e.gray@lowes.com

CALIF PUBLIC UTILITIES COMMISSION
Patrick L. Gileau
plg@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Eric Green
eg1@cpuc.ca.gov

ARNOLD & PORTER
JAMES I. HAM
James_Ham@aporter.com

MORRISON & FOERSTER LLP
PETER W. HANSCHEN
phanschen@mofo.com

UTIL. WORKERS UNION OF AMERICA, AFL-CIO
MARTA HARRIS
unionmarti@aol.com

THE UTILITY REFORM NETWORK
MARCEL HAWIGER
marcel@turn.org

ASSOCIATION OF CALIFORNIA WATER AGENCIES
LON W. HOUSE
lwhouse@innercite.com

MANATT, PHELPS & PHILLIPS, LLP
DAVID L. HUARD
PUCservice@manatt.com

CALIF PUBLIC UTILITIES COMMISSION
Peter Hanson
pgh@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Maxine Harrison
omh@cpuc.ca.gov

CATHOLIC HEALTHCARE WEST
DAVID JONES
djones2@chw.edu

ADAMS BROADWELL JOSEPH & CARDOZO
MARC D. JOSEPH
mdjoseph@adamsbroadwell.com

CALIF PUBLIC UTILITIES COMMISSION
William Julian Ii
bj2@cpuc.ca.gov

ALCANTAR & KAHL, LLP
EVELYN KAHL
ek@a-klaw.com

MANATT, PHELPS & PHILLIPS, LLP
RANDALL W. KEEN
pucservice@manatt.com

ELLISON, SCHNEIDER & HARRIS LLP
DOUGLAS K. KERNER
dkk@eslawfirm.com

DOUGLASS & LIDDELL
GREGORY S.G. KLATT
klatt@energyattorney.com

CALIF PUBLIC UTILITIES COMMISSION
Laura L. Krannawitter
llk@cpuc.ca.gov

LUCE, FORWARD, HAMILTON & SCRIPPS, LLP
JOHN W. LESLIE
jleslie@luce.com

CALIFORNIA FARM BUREAU FEDERATION
RONALD LIEBERT
rliebert@cfbf.com

CALIF PUBLIC UTILITIES COMMISSION
Donald J. Lafrenz
dlf@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Douglas M. Long
dug@cpuc.ca.gov

GOODIN MACBRIDE SQUERI RITCHIE & DAY LLP
THOMAS J. MACBRIDE, JR.
tmacbride@gmssr.com

UTILITY WORKERS UNION OF AMERICA
JAVIER MANZANO
javier1@uwua132.org

JBS ENERGY
BILL MARCUS
bill@jbsenergy.com

DAVID MARCUS
dmarcus2@sbcglobal.net

SUTHERLAND, ASBILL & BRENNAN
KEITH MCCREA
kmccrea@sablaw.com

SOUTHERN CALIFORNIA EDISON COMPANY
FRANK MCNULTY
francis.mcnulty@sce.com

SEMPRA ENERGY
KEITH W. MELVILLE
kmelville@sempra.com

CALIFORNIA FARM BUREAU FEDERATION
KAREN NORENE MILLS
kmills@cfbf.com

KERN RIVER GAS TRANSMISSION COMPANY
MARK C. MOENCH
mark.moench@kernrivergas.com

WESTERN MANUFACTURED HOUSING COMM. SVCS.
IRENE K. MOOSEN
irene@igc.org

S. F. COMMUNITY POWER COOPERATIVE
STEVEN MOSS
steven@moss.net

CALIF PUBLIC UTILITIES COMMISSION
Laura A. Martin
lra@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Richard A. Myers
ram@cpuc.ca.gov

PACIFIC GAS AND ELECTRIC COMPANY
ANDREW L. NIVEN
aln2@pge.com

SIERRA PACIFIC POWER CO.
DAVID NORRIS
dnorris@sppc.com

CA DISABLED VETS BUSNSS ENTERP ALLIANCE
KEVIN K. O'CONNOR
kkolabs@earthlink.net

HANNA AND MORTON LLP
NORMAN A. PEDERSEN
npedersen@hanmor.com

ANDERSON & POOLE
EDWARD G. POOLE
epoole@adplaw.com

PATRICK J. POWER
pjpowerlaw@aol.com

CALIF PUBLIC UTILITIES COMMISSION
Robert M. Pocta
rmp@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Anne W. Premo
awp@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Nicolas B Procos
nbp@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Terrie D Prosper
tdp@cpuc.ca.gov

PACIFIC GAS AND ELECTRIC COMPANY
MICHAEL REIDENBACH
jmrb@pge.com

CALIFORNIA DVBE ALLIANCE
DANIEL W. ROBERTS
danielwroberts@hmpage.com

CALIFORNIA CABLE & TELECOMMNICATIONS
GLENN SEMOW
gsemow@calcable.org

UTILITY CONSUMERS' ACTION NETWORK
MICHAEL SHAMES
mshames@ucan.org

ALCANTAR & ELSESSER
NORA E. SHERIFF
nes@a-klaw.com

GOODIN MACBRIDE SQUERI RITCHIE & DAY LLP
JAMES D. SQUERI
jsqueri@gmssr.com

MODESTO IRRIGATION DISTRICT
SCOTT T. STEFFEN
scottst@mid.org

SEMPRA ENERGY
GLEN J. SULLIVAN
gsullivan@sempra.com

CALIF PUBLIC UTILITIES COMMISSION
Danilo E. Sanchez
des@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
James E. Scarff
jes@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Laura Lei Strain
lls@cpuc.ca.gov

CALIFORNIA ENERGY COMMISSION
JENNIFER TACHERA
jtachera@energy.state.ca.us

DOWNEY, BRAND, SEYMOUR & ROHWER
ANN L. TROWBRIDGE
atrowbridge@downeybrand.com

CALIF PUBLIC UTILITIES COMMISSION
Pamela T. Thompson
ptt@cpuc.ca.gov

CALIF PUBLIC UTILITIES COMMISSION
Laura J. Tudisco
ljt@cpuc.ca.gov

SIMPSON PARTNERS LLP
ANDREW ULMER
andrew@simpsonpartners.com

SEMPRA
RONALD VAN DER LEEDEN
rvanderleeden@semprautilities.com

CALIF PUBLIC UTILITIES COMMISSION
Maria Vanko
mv1@cpuc.ca.gov

PACIFIC GAS AND ELECTRIC COMPANY
CHRISTOPHER J. WARNER
cjw5@pge.com

AGLET CONSUMER ALLIANCE
JAMES WEIL
jweil@aglet.org

ALCANTAR & KAHL, LLP
ELIZABETH WESTBY
egw@a-klaw.com

CALIFORNIA ENERGY COMMISSION
BILL WOOD
bwood@energy.state.ca.us

CALIFORNIA LEAGUE OF FOOD PROCESSORS
ED YATES
ed@clfp.com

LOCAL 483 UTILITY WORKERS UNION
DENNIS ZUKOWSKI
dennis@local483.org

ATTACHMENT B
Advice No. 3484

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 39000-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 1	Revised 32534-G
Revised 39001-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 2	Revised 32535-G
Revised 39002-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 3	Revised 33143-G
Revised 39003-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 4	Revised 32537-G
Revised 39004-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 5	Revised 32538-G
Revised 39005-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 6	Revised 32539-G
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ATTACHMENT B
Advice No. 3484

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
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Revised 39017-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 18	Original 32561-G
Revised 39018-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 19	Revised 32551-G
Revised 39019-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 20	Revised 38701-G
Revised 39020-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 21	Revised 32553-G
Revised 39021-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 22	Revised 32554-G
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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

A. OVERVIEW N

Pursuant to Decision (D.) 05-03-023, the Performance Based Ratemaking (PBR) Mechanism consists of 1) a base margin indexing mechanism; 2) Z-Factor; 3) an earnings sharing mechanism; 4) a cost of capital trigger mechanism; 5) offramp provisions, 6) a revenue adjustment mechanism; and 7) performance indicators.

- PBR Base Margin Indexing Mechanism - The indexing mechanism allows SoCalGas to adjust, subject to a minimum (floor level) and maximum (ceiling level) increase, its authorized base margin using a CPI-All Urban Consumers forecast as published by Global Insight. The PBR indexing mechanism is also subject to certain exclusions and "Z Factor Adjustments" as described herein.

- Z-Factor – Z Factors are exogenous events, unforeseen at the implementation of PBR, largely uncontrollable by management, having a material and disproportionate impact on SoCalGas.

- PBR Earnings Sharing Mechanism - The earnings sharing mechanism provides sharing of SoCalGas' annual earnings, adjusted for exclusions and adjustments as described herein, that exceed 50 basis points above its currently authorized Rate of Return (ROR). The mechanism also provides for an automatic suspension of the PBR mechanism if the overall actual ROR is more than 300 basis points above or below the authorized ROR.

- Cost of Capital Trigger Mechanism - The cost of capital trigger mechanism provides for an adjustment to SoCalGas' authorized ROR if interest rates change by more than plus/minus 150 basis points from the benchmark rate and the forecast for 12 months ahead interest rates is at least plus/minus 150 basis points from the benchmark interest rate.

- Offramp Provisions - In addition to the offramp provisions in the earnings sharing and cost of capital mechanisms, SoCalGas may file a motion seeking suspension of the PBR mechanism if for one year the actual ROR is 175 basis points (1.75%) below the authorized ROR. If the actual ROR is 175 basis points (1.75%) above the authorized ROR, the ORA or other parties can file a motion seeking suspension of the PBR mechanism.

- Revenue Adjustment Mechanisms – All base rate revenues shall be recoverable by SoCalGas through the operation of revenue adjustment mechanisms to ensure that the recovery of approved revenue requirements is not affected by variance in sales forecasts.

- Performance Indicators – Performance rewards or penalties are measured based on the utilities performance in the categories of employee safety and service quality. The total reward or penalty for any year of the PBR mechanism, beginning in 2005, shall not exceed $8.1 million.

- Ratemaking Procedures – The ratemaking procedures establish the requirements for filing the annual rate adjustment and the annual shareable earnings. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

B. EFFECTIVE DATE / DURATION N

The PBR mechanism shall be effective for calendar years 2005 through 2007. Pursuant to D.05-03-023, the earnings sharing mechanism and performance incentives shall be effective from 2005 onwards until modified or terminated by further action of the Commission. There will be no performance incentives or earnings sharing mechanism for 2004. SoCalGas shall file a Test Year 2008 general rate case application. The PBR mechanism will remain in effect unless the "Offramp" provisions for earnings sharing are triggered as described in Section G.

C. DETERMINATION OF INITIAL BASE MARGIN

The Starting Base Margin for PBR implementation is the amount authorized by the Commission to be used in the calculation of Base Rates that are subject to the PBR Indexing Mechanism as reflected in D.1. Starting Base Margin includes all SoCalGas expenses except Excluded Items described in Section E. The 2004 adopted base margin for indexing equals $1,397.5 million:

	($000)
Authorized Base Margin	$1,457,008
Less:	
Pension Costs	4,000
PBOPS	47,500
RD&D	8,000
PBR Base Margin for Indexing	$1,397,508

N

(Continued)

PRELIMINARY STATEMENT Sheet 3
PART XI
PERFORMANCE BASED REGULATION

(Continued)

D. INDEXING MECHANISM N

1. Indexing Formula

The adopted PBR indexing escalates margin for the subject year by applying the current year's October forecast by Global Insight of the Consumer Price Index-All Urban Consumers (CPI) to the current year's approved base margin adjusted by appropriate exclusions. The formula can be expressed as:

R_{t+1} = (R_t * CPI factor) + any Z factor adjustments (as described in F.3.)

Where: R_{t+1} = Base margin revenue requirement in the subject period
R_t = Base margin requirement in the current period
CPI Factor = (CPI forecast for year t+1) / (CPI forecast for year t)

In determining the CPI Factor used in the indexing formula above, two forecast figures should be taken from the October publication of Global Insight. For example, if in October 2004 Global Insight forecasts a full year average 2004 CPI of 188.0 and a full year average 2005 CPI of 192.7, the 2005 CPI factor would be calculated as follows:

CPI Factor = (forecasted CPI for subject year/forecasted CPI for current year)
= (192.7/188.0)
= 1.025

In the example above, the base margin revenue requirements established for the subject year would increase by 2.5% from the authorized 2004 base margin revenue requirement for indexing and include the add-back of the pension costs, PBOPS and RD&D revenue requirements, which were excluded from the PBR indexing calculations. In establishing the base margin revenue requirement for subsequent years, the prior years' authorized base margin shall be recalibrated to reflect the latest available index values from the initial base year 2004 up to and including the subject year. In the example above, if the actual full year average CPI for 2004 was 187 and the latest forecasted full year average CPI for 2005 was 192.6, the prior year's authorized base margin shall be recalculated to reflect a 3% escalation (i.e., 192.6/187 CPI Factor) before applying the following year's CPI Factor. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

D. INDEXING MECHANISM (Continued) N

1. Indexing Formula (Continued)

If the forecasted CPI Factor for any year is beneath the floor level described in D.2, then the adopted base margin will be based on the floor, not the forecasted CPI Factor. If the forecasted CPI Factor for any year exceeds the floor level described in D.2, but does not exceed the ceiling described in D.3, then the adopted base margin will be based on the forecasted CPI Factor, not the floor. If the forecasted CPI Factor for any year is above the ceiling as described in D.3, then the adopted base margin will be based on the ceiling, not the forecasted CPI Factor. These minimum and maximum thresholds also apply to the actual full year average CPI Factor used in recalibrating the prior year's authorized base margin. For example, if the actual full year average CPI Factor for 2005 indicated an escalation of 1.8%, then the authorized base margin for 2005 would be recalibrated to reflect a 2.0% escalation (floor level as noted below in D.2) before applying the following year's forecasted CPI Factor.

2. Minimum Annual Increase (Floor Levels)

SoCalGas' base margin shall at a minimum be escalated, relative to the previous year's approved base margin revenue requirements for indexing, as follows:

- 2005: 2.0%,
- 2006: 2.5%,
- 2007: 3.3%.

3. Maximum Annual Increases (Ceiling Levels)

SoCalGas' maximum increases for the escalated portion of base margin, relative to the previous year's approved base margin revenue requirements for indexing, shall be 1% (100 basis points) higher than the CPI floor level as indicated in D.2:

- 2005: 3.0%,
- 2006: 3.5%,
- 2007: 4.3%. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

Sheet 5

E. EXCLUSIONS TO INDEXING MECHANISM N

In compliance with D.05-03-023, the following items are specifically excluded from PBR in order to retain those items as separate regulatory mechanisms or preserve the Commission's discretion to prescribe specific ratemaking treatment at an appropriate time in the future:

1. Catastrophic Event Memorandum Account (CEMA) pursuant to Resolution No. E-3238, dated July 24, 1991.

2. Hazardous Substance Cost Recovery Account (HSCRA) pursuant to D.94-05-020, dated May 4, 1994.

3. Discretionary costs associated with the Low Emission Vehicle (LEV) Program pursuant to D.03-10-086.

4. Regulatory Transition Costs authorized for exclusion pursuant to SoCalGas' PBR D.97-07-054, dated July 16, 1997. These transition costs consist of Take-or-Pay (TOP) costs, Minimum Purchase Obligation (MPO) Transition costs, PITCO/POPCO Transition costs, and the Interstate Transition Cost Surcharges (ITCS). These items are consistent with the Commission's definition of transition costs as described in D.87-12-039 (p. 15) and D.86-12-009 (p. 23).

5. Mandated Social Programs such as California Alternate Rates for Energy (CARE) and the low-income Direct Assistance Program (DAP).

6. Gas Costs (including Company use gas and unaccounted for gas) and Pipeline Demand Charges.

7. Costs imposed by the Commission, such as, Intervenor Compensation Fees and costs related to Commission staff supervised management or financial audits.

8. RD&D costs.

9. DSM shareholder incentives.

10. Pension and PBOPS costs covered under balancing accounts.

11. Montebello storage field costs pursuant to Amended Settlement Agreement approved by D.01-06-081.

12. Aliso/Goleta costs associated with the sale of cushion gas pursuant to D.02-011-028.

13. Any other costs recoverable through a separate mechanism as authorized by the Commission. N

(Continued)

F. Z FACTOR N

1. Definition

Z Factors are exogenous events, unforeseen at the implementation of PBR, largely uncontrollable by management, having a material and disproportionate impact on SoCalGas as described below. Additionally, Z factors include costs which are a normal part of doing business, the costs and event are not reflected in the rate update mechanism, and the cost impact must be measurable and incurred reasonably. Potential Z Factors shall include, but are not limited to the items set forth below:

a. Accounting rule changes promulgated by the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission (SEC) or the California Public Utilities Commission (CPUC);

b. Tax law changes by the federal government, the State Franchise Tax Board, Board of Equalization, or any local jurisdiction having taxing authority;

c. Costs resulting from other mandated state, federal, or local governmental programs or from regional environmental programs;

d. In the event that the Catastrophic Event Memorandum Account (CEMA) is subsequently eliminated, material cost impacts resulting from natural disasters; and

e. Other events meeting the criteria set forth herein.

SoCalGas must promptly notify the Commission of all potential Z Factors in compliance with D.97-07-054. Notice to the Commission shall be by a letter addressed to the Executive Director. Copies of the letter shall be sent to the following at the Commission: the Director of the Energy Division, the Investigations, Monitoring and Compliance Branch Chief, Energy Division, and the Director of the ORA. The letter shall clearly identify the proposed Z Factor to be recorded in the Z Factor Memorandum Account, shall include a detailed description of the event and a forecast of the annual cost impact of such Z Factor. SoCalGas shall then be authorized to record, on a monthly basis, the associated cost in the Z Factor Memorandum Account.

2. Operation of the Z Factor Memorandum Account

SoCalGas shall maintain a separate Z Factor Memorandum Sub-Account for each identified Z Factor. Recorded costs are charged to each sub-account at the end of each month. Revenues authorized by the Commission to amortize the balance are credited to each sub-account at the end of each month. Interest shall accrue on a monthly basis by applying the interest rate, as set forth in Section J of Preliminary Statement Part I, to the average of the beginning and ending balance (either positive or negative) less a $5,000,000 deductible amount which is applicable to each qualifying Z Factor event. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

F. Z FACTOR (Continued) N

3. Measure of Adjustment

a. Z Factor Calculation

The impact of the Z Factor event is less the $5,000,000 deductible. The impact of the Z Factor event above the $5,000,000 deductible will be the Z Factor used in the Base Rate Indexing Mechanism. The precise calculation is shown in the following formula:

$Z_s = ZC_s - \$5,000,000$

Where:

Z_s = A particular Z Factor for subject year *s*
ZC_s = Z Factor cost level in subject year *s*

b. Capital Related Z Factor Costs

The formula is identical for capital costs except that the result is multiplied by the Capital Service Price, where the Capital Service Price is defined as the margin requirement for capital related costs determined under traditional cost of service methodology divided by the associated capital costs. Such costs are: return on weighted average rate base (using the current CPUC authorized rate of return), taxes on that return, depreciation expense at the CPUC adopted system average rate, plus authorized franchise fees and uncollectible expense. The precise calculation is shown in the following formula:

$Z_s = (ZC_s * SP_s) - \$5,000,000$

Where:

Z_s = A particular Z Factor for subject year *s*
ZC_s = Z Factor cost level in subject year *s*
SP_s = Capital Service Price in subject year *s*

c. Subsequent Year Adjustment

In subsequent years the Z Factor will be modified as described in F.4 below. N

(Continued)

F. Z FACTOR (Continued) N

4. Operation of the $5,000,000 Deductible Feature

To limit recoverable Z Factors to material events, the deductible feature of $5,000,000 was authorized by the Commission in D.97-07-054 to operate as follows:

a. The deductible is a one-time feature applicable to the first $5,000,000 in costs for each Z Factor event. For example, if a qualified Z Factor increased costs by $20,000,000 in each year 1, 2 and 3 above the base level, the deductible will apply in year 1. Thus, the compensable amounts will be $15,000,000, $20,000,000 and $20,000,000 in years 1, 2 and 3, respectively.

b. The deductible is cumulative for each Z Factor event and completes its application in the first year that the cumulative Z Factor costs exceed the deductible amount. For example, if a qualified Z Factor increased costs by $4,000,000, $4,000,000 and $4,000,000 in years 1, 2 and 3 above the base level, the deductible will be fully applied during year 2. Thus, the compensable amounts will be $0, $3,000,000 ($4,000,000 plus $4,000,000 minus $5,000,000) and $4,000,000 in years 1, 2 and 3, respectively. As demonstrated above, once a Z Factor is created and the full deductible is applied, the Z Factor remains compensable in subsequent years even if the amount is less than the one-time deductible.

c. The deductible is applicable to each separate Z Factor event. Thus, in the event of multiple Z Factors, the following table depicts the Z Factor amounts, application of the deductible, and the compensable amounts:

	Year		
($ Millions)	1	2	3
Z Factor (a)	$8	$3	$3
Z Factor (b)	6	6	4
Sub-Total	14	9	7
Deductible (a)	(5)	-	-
Deductible (b)	(5)	-	-
Compensable Amount	$4	$9	$7

As demonstrated above, the deductible is a one-time amount applicable to each individual Z Factor. Again, once the deductible level is exceeded in any year for an individual Z Factor, that Z Factor is fully compensable in subsequent years. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
Sheet 9

(Continued)

G. FINANCIAL PRACTICES AND METHODS N

1. Earnings Sharing Mechanism

   The earnings sharing mechanism provides asymmetrical sharing (i.e., sharing only if earnings exceed authorized and no sharing with ratepayers if earnings are below authorized) with the first sharing band beginning at 50 basis points above SoCalGas' authorized Rate of Return (ROR) on rate base after appropriate exclusions. SoCalGas shares earnings with ratepayers on a progressive basis and only within "bands" above a benchmark ROR on rate base. The benchmark ROR will be the current authorized ROR. SoCalGas' authorized ROR is 8.68%, which was adjusted effective January 1, 2003 under its MICAM (per Advice No. 3199-A) in compliance with D.97-07-054. Shareholders will retain 100% of the earnings up to 50 basis points (0.50%) above the benchmark ROR. Between 50 basis points and 300 basis points above the benchmark, there are 6 bands where there will be sharing of earnings between shareholders and ratepayers. Beyond the inner band, from 50 to 300 basis points, the shareholder share of earnings rises stepwise from 25% through 75%, while the ratepayer share correspondingly declines from 75% to 25%. The earnings sharing mechanism shall be automatically suspended if SoCalGas reports one year of net operating income (NOI) subject to sharing which results in an overall ROR that is more than 300 basis points above or below SoCalGas' currently authorized ROR. Such suspension will trigger a formal regulatory review of the PBR mechanism. If SoCalGas is able to increase revenues due to expansion of current service offerings unrelated to the provision of natural gas or through offering new products and services, they will be included along with associated costs into the total rate of return calculation for earnings sharing purposes unless specifically excluded. There will be no earnings sharing in 2004.

2. Achieved Base Margin ROR

   The equation for determination of the Achieved Base Margin ROR is:

   Achieved Base Margin Return / Actual Weighted Average Base Margin Rate Base. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

(Continued)

G. FINANCIAL PRACTICES AND METHODS (Continued) N

3. Achieved Base Margin Return

Achieved Base Margin Return is defined as: Actual total utility operating revenues minus total utility operating expenses adjusted for items excluded from the final PBR earnings sharing mechanism. Actual Base Margin Return would reflect total results of operations, however the following items are to be excluded and not considered in the Base Margin Return amount subject to the Earnings Sharing Mechanism:

a. Incremental storage or other revenues/costs subject to incremental pricing rules established by the CPUC,

b. Incentive mechanism activity such as DSM, GCIM, RD&D Royalties subject to 50/50 sharing, and Hazardous Waste shareholder costs/awards, or any rewards/penalties adopted as part of this PBR mechanism,

c. Contingent liability adjustments (reserves) required for financial reporting purposes under Generally Accepted Accounting Principles (GAAP), but not authorized by the CPUC for ratemaking purposes,

d. Such adjustments to the CFCA related to losses on the Core Pricing Flexibility program as may be approved by the Commission and the 50% shareholder portion of the NSBA as approved in D.00-04-060, and

e. Billing credits provided to customers for missed service appointments in accordance with the Service Guarantee mandated per the COS Phase II Decision 05-03-023.

4. Actual Weighted Average Base Margin Rate Base

Actual Weighted Average Base Margin Rate Base is defined as: actual weighted average rate base adjusted for costs related to the Aliso Canyon Expansion Storage Project subject to incremental pricing under CPUC decisions and therefore excluded from base margin rate base.

To the extent this equation generates an Achieved Base Margin ROR that is in excess of the CPUC authorized base margin ROR the excess will be shared based on the Earnings Sharing Mechanism described above. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

G. FINANCIAL PRACTICES AND METHODS (Continued) N

4. Actual Weighted Average Base Margin Rate Base (Continued)

To achieve the specific shareholder/ratepayer sharing set forth in the table below on a basis net of tax and F&U, tax and F&U benefits are shared such that the ratio of net benefits to shareholders and ratepayers equals (1-*r)* / *r*, where 1-*r* and *r* equal the adopted average shareholder and ratepayer sharing percentages. In order to achieve this net benefit ratio the ratepayer credit is "grossed-up" by the factor 1/ (1-*r* * *t*).

Where: *r* = the average ratepayer sharing percentage, and
t = the combined adopted F&U and income tax (federal and statutory rate) factor

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

Bands	Basis Points	Shareholder %	Ratepayer %	Average Ratepayer %
Inner	00-50	100%	00%	00.0%
1	51-100	25%	75%	37.5%
2	101-125	35%	65%	43.0%
3	126-150	45%	55%	45.0%
4	151-175	55%	45%	45.0%
5	176-200	65%	35%	43.8%
6	201-300	75%	25%	37.5%
Outer	301-above	Suspension		

The current benchmark rate of return is 8.68%. This represents SoCalGas' current authorized ROR as revised under its “MICAM” for rates effective January 1, 2003. This benchmark rate of return will remain in effect throughout the PBR period unless further revised based on the MICAM mechanism or Cost of Capital proceeding.

5. Example of Revenue Sharing Calculation

Let Achieved Base Margin ROR equal 10.28%, i.e., 160 bps above the benchmark ROR.
Let Actual Weighted Average Base Margin Rate Base equal $2,700 million.
Total Achieved Base Margin Return above the benchmark equals $43.2 million. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

G. FINANCIAL PRACTICES AND METHODS (Continued) N

5. Example of Revenue Sharing Calculation (Continued)

The ratepayer share before grossing-up equals:

($13.5 million * 75%) + ($6.75 million * 65%) +
($6.75 million * 55%) + ($2.7 million * 45%) = $19.438 million

Since $\underline{r}$ = $19.438 / 43.2 = 0.450, the grossed-up ratepayer credit = $19.438 million /
(1 - 0.450 * 0.4190[1]) = $23.955 million

[1] This factor is used for illustrative purposes only.

6. Cost of Capital Trigger Mechanism

The mechanism would not be triggered unless (1) actual interest rates (defined as the 12-month trailing average yield on 30 year Treasury Bond) change by more than ±150 basis points (1.5%) from the benchmark rate (5.38%) as updated in SoCalGas MICAM adjustment filing (Advice Letter 3199-A) and (2) the then-current Global Insight forecast for 12 months ahead interest rates is at least ±150 basis points from the benchmark interest rate. If the threshold is triggered there will be an automatic adjustment of rates according to the pre-established formula, which is the "MICAM" mechanism for rate adjustment that was adopted for SDG&E in D.96-06-055.

When an automatic adjustment is triggered, the costs of capital components would be updated and a new rate of return computed as follows:

a. The return on equity would be adjusted by one-half the change in 30-year Treasury Bond rates that triggered the adjustment.

b. The costs of long-term debt and preferred stock would be updated to reflect actual embedded costs. Interest rate forecasts would not be used.

c. For the calendar years 2004 through 2007, SoCalGas' ratemaking capital structure (i.e., common equity, preferred stock, and debt ratios) would be frozen at the 1997 level adopted in D.96-11-060. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

G. FINANCIAL PRACTICES AND METHODS (Continued) N

7. Offramp Provisions

a. Rate of Return Offramp: SoCalGas may file a motion seeking suspension and a formal review of the PBR mechanism if net operating income is 175 basis points (1.75%) below SoCalGas' authorized rate of return (ROR). If for one year net operating income is 175 basis points (1.75%) above SoCalGas' authorized ROR, the ORA or other parties may file a motion seeking suspension of the PBR mechanism. If the motion is granted, suspension of the earnings sharing mechanism would be required. If SoCalGas reports a return of more than 300 basis points (3%) above or below its authorized ROR, the earnings sharing mechanism will automatically be suspended, and the Commission will conduct a formal regulatory review to determine what, if any, changes in the ratemaking mechanism are required.

b. Cost of Capital Offramp: in the event of a change equal to or exceeding the cost of capital trigger mechanism, the PBR mechanism will be modified as described in G.6 above.

H. REVENUE ADJUSTMENT MECHANISM

On a monthly basis, actual base margin revenues are recorded to the Core Fixed Cost Account (CFCA), Enhanced Oil Recovery Account (EORA) and the Noncore Fixed Cost Account (NFCA) and balanced against the monthly portion of the authorized base margin revenue requirement. The CFCA, NFCA and EORA balance the costs and revenues associated with serving the core, noncore, and Enhanced Oil Recovery customer classes, respectively, as is further described in Preliminary Statement, Part V, Regulatory Accounts – Balancing.

I. CUSTOMER SERVICE AND SAFETY PERFORMANCE INDICATORS

The total amount of performance indicator reward or penalty in any year of the PBR mechanism, beginning in 2005, shall not exceed $8.1 million.

1. Customer Service Indicators

SoCalGas' performance on four Customer Service performance indicators will be measured to ensure appropriate service quality levels are maintained under PBR. The four indicators that will be measured are as follows:

a. Phone / Office Contact Satisfaction – composite measure of customers' satisfaction with their overall experience with the SoCalGas Customer Contact Center and Branch Offices.

b. Field Visit Satisfaction – measure of customers' satisfaction with their overall experience with a field service visit. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

I. CUSTOMER SERVICE AND SAFETY PERFORMANCE INDICATORS (Continued) N

1. Customer Service Indicators (Continued)

c. Field Service Order Appointments Provided / Percent Made – measure of the frequency with which SoCalGas provides customers with service window appointments and the frequency with which SoCalGas meets those commitments.

d. Call Center Responsiveness – measure of how quickly SoCalGas responds to customer calls.

Reward / penalty mechanism – For the Phone / Office Contact, Field Visit, and Call Center Responsiveness, SoCalGas is authorized a specific target and deadband for which no reward or penalty will apply. For each of the three indicators, performance beyond the deadband triggers a reward or penalty up to a maximum amount. Refer to individual tables below for details.

Phone / Office Contact Satisfaction Table

Target………………………… 83.4%
Deadband…………………….. 84.4% – 82.4%
Reward / Penalty Liveband….. +/- 5%
Incentive Rate……………….. $10,000 / 0.1
Maximum Reward / Penalty.... $500,000

Field Visit Satisfaction Table

Target……………….……….. 94.1%
Deadband…………………….… 95.1% – 93.1%
Reward / Penalty Liveband…... +/- 5%
Incentive Rate………………... $10,000 / 0.1
Maximum Reward / Penalty..... $500,000 N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

I. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued) N

1. Customer Service Indicators (Continued)

Call Center Responsiveness Table

Target…………..…………… 80% within 60 seconds
Deadband…………………… 82% – 78%
Reward / Penalty Liveband….. +/- 5%
Incentive Rate……………….. $30,000 / 0.1
Maximum Reward / Penalty… $1,500,000

Field Service Order Appointments Provided / Percent Made

There are seven bands by which the Field Service Order Appointments Provided are assessed in terms of the Percentage of On-Time Arrivals (Percent Made). The maximum Reward or Penalty is +/- $600,000 and are assessed in increments of $12,000 per each 0.1% change in the Percent On-Time Arrivals (Percent Met) within each of the seven Percent Appointments Provided bands. There is only one deadband area which is found in the band > 35% - 40% for 99.01 – 100% On-Time Arrivals Met. The targets, deadbands, and livebands are as follows:

- 35% or Below: Target: 100%
  Deadband: none
  Liveband: Penalty only 95.01 – 100% met
- >35% - 40%: Target: 99.01%
  Deadband: 99.01 – 100%
  Liveband: Penalty 94.01 – 99% met
- >40% - 45%: Target: 99.01%
  Deadband: none
  Liveband: Penalty 94.01 – 99% met; Reward 99.01 – 100% met
- >45% - 50%: Target: 98.01%
  Deadband: none
  Liveband: Penalty 93.01 – 98% met; Reward 98.01 – 100% met
- >50% - 55%: Target: 97.01%
  Deadband: none
  Liveband: Penalty 92.01 – 97% met; Reward 97.01 – 100% met N

(Continued)

I. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued) N

1. Customer Service Indicators (Continued)

- >55% - 60%: Target: 96.01%
  Deadband: none
  Liveband: Penalty 91.01 – 96% met; Reward 96.01 – 100% met
- >60%: Target: 95.01%
  Deadband: none
  Liveband: Penalty 90.01 – 95% met; Reward 95.01 – 100% met

2. Employee Safety Indicator

The Employee Safety performance indicator measures SoCalGas performance based on its OSHA rate, a metric established by the federal Occupational Safety Health Act (OSHA). The OSHA rate is the number of incidents per 200,000 hours worked.

Reward / penalty mechanism – The employee safety indicator establishes a deadband from 6.02 to 6.36 for which no reward or penalty will apply. Beyond the deadband, SoCalGas is authorized an incentive rate of $25,000 per 0.01 change in the rate for a maximum reward or penalty of $5,000,000. Refer to table below for details.

Employee Safety Table

Benchmark …………………..…..	6.19
Deadband……………………..	6.02 – 6.36
Reward Liveband……………..	+/- 2.0
Incentive Rate……………..…	$25,000 / .01
Maximum Reward / Penalty ...	$5,000,000

SoCalGas shall also track reportable incidents in the following four categories: meter reading; customer field service; distribution, transmission & storage; and office. SoCalGas shall submit a report of this information in its next General Rate Case proceeding. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

I. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued) N

3. Customer Service – Monitor Only Indicators

SoCalGas' performance on the following performance indicators will be tracked to monitor the service quality levels. SoCalGas will submit quarterly data on these indicators on an annual basis, beginning in 2006 to include data for the year 2005.

a. Level of busy signals.
b. Estimated meter reads.
c. Leak response time.
d. Missed appointments.
e. Problem resolved on first visit.
f. Elapsed time.
g. Percentage of abandoned calls.
h. Shortest time to CSR.
i. Complaints.

4. Service Guarantee Program

If SoCalGas is unable to meet an appointment commitment with a customer for services at the customer's premises when access is required, SoCalGas will credit $50 to the customer's account. Appointments can be all day or they may be made within appointment windows (e.g., a.m. / p.m.). The credit does not apply if the customer is notified at least four hours before the end of the appointment period. For establishment of service (turn on orders), the customer will be credited with the applicable service establishment charge ($25) rather than the $50. The guarantee does not apply for the gas pilot light service or if the utility documents that the reason for the missed appointment was due to natural disaster, labor strike, or the service person was called off to work on an Emergency Order. Emergency Orders are excluded as a result of the utility's public service obligations and include the following events: 1) fire or explosions; 2) broken or blowing gas line; 3) high gas pressure; 4) emergency carbon monoxide; and 5 hazardous leaks.

When an individual customer requests a date for a permanent new service establishment, the utility will turn on new service on the date promised (prior to midnight) or credit the customer's account with the appropriate Service Establishment Charge instead of the $50 stated above. The credit does not apply if at least 24 hours notice of a date change is given to the customer. Notice given on an answering machine or to another number designated by the customer is sufficient. For the guarantee to be valid, there must be: 1) open access to the facility and the meter panel or gas service; 2) all required inspections must be completed and approved; and 3) no threats or harm to the utility employees.

SoCalGas will implement the service guarantee by the end of the first quarter, 2006. N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

J. RATEMAKING PROCEEDINGS N

1. Annual Rate Adjustments (ARA's)

SoCalGas shall make an annual advice letter filing on or before November 1 to update base margin, according to the Indexing Mechanism (described in Section D), effective January 1 of the following year for each year PBR is in effect. The advice letter will contain detailed information on forecast calculation using the CPI forecast as published by Global Insight. The filing may also include proposed Z Factor adjustments (described in Section F).

2. Sharable Earnings Filings

SoCalGas will file an advice letter providing sharable earnings according to the financial sharing mechanism described in Section G. If there are any sharable earnings, the earning allocated to ratepayers under the mechanism will be included in rates on January 1 of the subsequent year. For performance indicators, any reward or penalty will be authorized in rates upon approval of the advice letter. SoCalGas will submit its sharable earnings advice letter on May 1 of the following year, which includes workpapers detailing operating results for SoCalGas' base rates. N

(Continued)

K. CORE PRICING FLEXIBILITY

1. Overview

   a. D.97-07-054 and D.98-01-040 authorize SoCalGas, at its option, to serve core customers with rates that may be discounted as low as the Commission-authorized floor rates detailed in section K.2 below. Under this arrangement, SoCalGas shareholders are responsible for any reduction in core revenues that may occur under discounting, including any discounting of ITCS, while any revenue gains are shared between ratepayers and shareholders as described below. SoCalGas may use the following two methods to offer alternative rates to core customers:

      1) Optional Tariffs - Optional tariff rate schedules apply to all similarly situated customers who meet a certain set of qualifications. At least 10 customers should be potentially eligible.

      2) Negotiated Rates - Negotiated rates apply to individual customers, and are established through individually negotiated contracts that may vary from customer to customer.

   b. The entire discounting program is subject to review by the Commission if new customer participation approaches 5% of the total core volume adopted in SoCalGas' 1996 BCAP (D.97-04-082).

   c. Customers eligible for service under optional tariffs or negotiated rates retain the right to be served under their Otherwise Applicable Tariff rate schedule.

   d. To ensure that ratepayers are isolated from any risk of revenue shortfall that may result from SoCalGas offering discounted core rates, the Commission has authorized a Core Fixed Cost Account (CFCA) adjustment mechanism. This mechanism credits the CFCA with revenues equal to those expected absent any optional tariffs or negotiated rates.

   e. Revenue gains are shared between ratepayers and shareholders in accord with the PBR sharing mechanism, except as described in section K.5.d.2. SoCalGas will submit documentation on the results of its core pricing flexibility program activity in its annual Shareable Earnings filing.

   f. Optional tariffs and negotiated rates are subject to change by the Commission as authorized by General Order 96-A, sections IX and X.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

K. CORE PRICING FLEXIBILITY (Continued)

2. Class Average Long Run Marginal Cost (LRMC) Floor Rates

a. D.98-01-040, Finding of Fact No. 5, allows SoCalGas the option to discount core transportation rates down to a LRMC floor rate; however, SoCalGas may not discount the cost of gas. For this program, the LRMC floor rate includes the following components: customer related, medium-pressure distribution, high-pressure distribution, transmission, seasonal storage, load balancing, company use transmission, unaccounted for gas, and interstate pipeline demand charges. In addition to these components, the full transportation rate includes the following components: non-marginal costs in base margin, ITCS, PITCO/POPCO transition costs, core averaging costs, and other exclusion costs.

b. The following table lists the full LRMC transportation rates authorized by D.97-04-082, and the class average LRMC floor rates authorized by D.98-01-040. LRMC Floor Rates were updated with new values established in D.00-04-060, D.01-12-018 and SoCalGas Advice No. 3454, effective February 1, 2005. Full Transportation Rates are updated with new values established in D.00-04-060, Resolution G-3303, D.01-12-018 and SoCalGas Advice No. 3454, effective February 1, 2005. The floor rates represent the lowest possible average annual rate by class under which SoCalGas can serve gas. These rates represent a starting point for the program and, pursuant to Commission order, may be modified in future rate proceedings.

Class	Full Transportation Rate	LRMC Floor Rate
Residential	43.8 cents/therm	27.7 cents/therm
G-10, 0 to 3 Mth	68.4 cents/therm	40.5 cents/therm
G-10, 3-50 Mth	26.6 cents/therm	15.1 cents/therm
G-10, 50-250 Mth	19.2 cents/therm	10.9 cents/therm
G-10, >250Mth	12.7 cents/therm	8.5 cents/therm
Gas A/C	13.5 cents/therm	10.0 cents/therm
Gas Engines	19.9 cents/therm	13.7 cents/therm

c. Optional tariffs or negotiated rate contracts that would result in average annual rates below class average LRMC will be subject to Commission approval through the Expedited Application Docket (EAD) process.

d. With prior Commission approval under the EAD process, SoCalGas may discount average annual rates to a floor of customer-specific LRMC that includes the full interstate pipeline reservation charges allocated to core customers (excluding ITCS).

(Continued)

K. CORE PRICING FLEXIBILITY (Continued)

3. Types of Customers and Contracts

Optional tariffs and negotiated rates are applicable to new or existing customers for the purpose of load growth or load retention.

a. New Customers

A new customer is defined as a new meter measuring volumes not previously served, or a reconnected meter measuring load that has been off the system for at least 12 months.

b. Existing Customers

In addition to customers currently connected, D.98-01-040 defines existing customers as those who have been off SoCalGas' system for less than 12 months.

1) Load Retention

Load retention applies to those existing customers who would use less natural gas if optional tariffs or negotiated rates were not available. In load retention situations, an affidavit (stating the amount of throughput that would be lost absent the load retention agreement) is required.

2) Load Gain

Load gain applies to those existing customers who intend to increase natural gas demand given favorable optional tariffs or negotiated rates.

(Continued)

K. CORE PRICING FLEXIBILITY (Continued)

4. Temperature Sensitive Definition

   a. For the purposes of the Temperature Adjustment Mechanism (TAM), the following customers are defined as temperature sensitive: residential customers; all core commercial and industrial customers with an annual consumption of less than 3,000 therms; and individual core commercial and industrial customers who have a seasonal load factor that equals or exceeds the residential load factor of 2.3.

   b. The seasonal factor is defined as the ratio of winter (November through April) demand to summer (May through October) demand.

   c. The single family residential market's temperature adjustment factor will be used for all customers subject to the TAM.

5. CFCA Adjustment Mechanism

   This mechanism is designed to protect core customers by calculating those revenues which represent base revenues that would have been credited to the CFCA absent any optional tariffs or negotiated rates.

   a. Unless otherwise noted, base revenues are calculated by multiplying base volumes times the Otherwise Applicable Tariff rate plus the customer charge, where base volumes are the amount of gas the customer would have used in the absence of the optional tariff or negotiated rate.

   b. When load being served under optional tariffs and negotiated rates is not separately metered, base volumes are established using the last 12 months recorded usage. In certain cases, base volumes are adjusted, as described in section K.6, for temperature variations.

   c. SoCalGas credits the CFCA with aggregate base revenues annually for all customers participating in the optional tariffs and negotiated rate program. This annual credit is calculated as the sum of the monthly base revenues.

(Continued)

K. CORE PRICING FLEXIBILITY (Continued)

5. CFCA Adjustment Mechanism (Continued)

d. CFCA Credits

1) New Customers

For a new customer who provides an affidavit stating they would not have become a customer absent the discounted rate, base volume equals zero, and there is no credit to the CFCA. For a new customer who does not provide an affidavit, the base volume equals the actual volume, and the CFCA credit is equal to 100% of the expected revenue under the Otherwise Applicable Tariff [i.e., 100% *(total metered actual volumes * Otherwise Applicable Tariff rate + customer charge)].

2) Existing Customers - Load Retention

The CFCA credit is equal to 95 % of actual revenue [i.e., 95% * (total metered actual volumes * optional tariff rate + customer charge)]; the remaining 5% of actual revenues goes to SoCalGas shareholders.

3) Existing Customers - Load Gain

a) Not Temperature Sensitive

Since customers with an annual load of less than 3,000 therms per year are treated as temperature sensitive, this category applies only to core commercial and industrial customers who use more than 3,000 therms in the base year, and have a seasonal factor less than 2.3. For these customers, base volumes equal the volume for the 12 months preceding the customer's participation in the optional tariff program.

b) Temperature Sensitive

For customers to whom the TAM applies, SoCalGas will use temperature-adjusted base volumes, as described in section K.6.

e. In the event proposed optional tariffs present special circumstances that may cause the CFCA adjustment mechanism to be clearly inappropriate or inaccurate, SoCalGas will propose, by advice letter filing, an alternative CFCA adjustment mechanism. Under such special circumstances, other parties may also propose alternate CFCA adjustment mechanisms.

(Continued)

K. CORE PRICING FLEXIBILITY (Continued)

6. Temperature Adjustment Mechanism (TAM)

The purpose of the TAM is to calculate temperature-adjusted base volumes that isolate the effect of weather changes from the effect of flexible pricing. The temperature-adjusted base volumes for a given month are calculated by multiplying base volumes times the quantity (1 + NF); where NF stands for normalization factor which is calculated as follows:

NF = [0.202*(CDD - BDD)]/[(0.917 * Billdays) + (0.202 * BDD)]

Where,

BDD	=	number of degree days for the base month cycle.
CDD	=	number of degree days for the current year month cycle.
0.917	=	daily non-temperature sensitive demand for single family residential segment.
Billdays	=	number of billing days in the base period month.
0.202	=	temperature adjustment coefficient for single family residential segment.

7. Effective Dates

a. Optional tariffs will be effective upon 20 days after filing unless protested on the basis that the price floor is below class average LRMC; parties may protest such filings on any other basis as well.

b. Unless otherwise specified in the tariff, SoCalGas may terminate optional rate schedules upon 60 days notice to customers and the Commission.

8. Term Of Contracts

a. Through December 31, 1999, SoCalGas will not enter into any load retention contracts with a term of more than seven years. After December 31, 1999, SoCalGas will not enter into any load retention contract with a term of five or more years.

b. As provided by D.97-07-054, contracts with a term of five years or longer will be filed for Commission approval under the EAD process.

c. Negotiated contracts with terms of less than five years will be available for inspection at SoCalGas' headquarters, and will be submitted to the Commission's Energy Division for informational purposes.

d. Once a load retention contract is in place for a particular load, the contract cannot be extended or renewed for a period longer than the maximum term permissible at the time the contract was executed.

(Continued)

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PART XI
PERFORMANCE BASED REGULATION

(Continued)

L. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) T
D

1. The BCAP is the proceeding by which the Commission authorizes the level and allocation of SoCalGas' revenue requirement including regulatory account balances among customer classes for those items not included in the PBR Mechanism. SoCalGas' BCAP application will be filed every other year pursuant to D.94-07-064 (Global Settlement). SoCalGas filed its 1999 BCAP application in October of 1998. Pursuant to D.00-04-060, the 1999 BCAP rates are effective June 1, 2000 and continue in effect through December 31, 2002. T

2. In non-BCAP years, SoCalGas will file an advice letter on or before October 15 to update the regulatory account amortization components of rates. T

3. Noncore Competitive Load Growth Opportunities - Revenue Treatment T

   a. Overview T

      1) D.00-04-060 (Finding of Fact Number 9.q.) authorizes SoCalGas, at its option, to exclude from future cost allocations the expanded load that results from two situations: T

         a) New negotiated rate contracts that are part of a California Red Team economic development effort. T

         b) Contracts where Rule 38 shareholder funding has been used. T

      Under this arrangement, the volumes and revenues from these situations will not be included in determining noncore commercial and industrial revenue requirements.

      2) The total volume that can qualify for treatment under this program is capped at 5% of the most recently adopted volume adopted for noncore commercial and industrial throughput in the most recent cost allocation proceeding. T

      3) Customers with contracts qualifying for this treatment are still eligible for service under their otherwise applicable tariff rate schedule. T

(Continued)

PRELIMINARY STATEMENT
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PERFORMANCE BASED REGULATION
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(Continued)

L. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued) T
D

3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued) T

a. Overview (continued) T

4) To ensure that ratepayers are isolated from any risk of revenue shortfall that may result from SoCalGas excluding these noncore volumes from other noncore volumes, SoCalGas has instituted a Noncore Fixed Cost Account (NFCA) adjustment mechanism. This mechanism ensures that the NFCA records the revenues equal to those expected absent any special treatment under this program. T

5) Earnings are shared between ratepayers and shareholders in accord with the PBR sharing mechanism, except as described in Section G. SoCalGas will submit documentation on the results of its competitive Load Growth revenue program activity in its annual Shareable Earnings filing. T

6) Contracts qualifying under this program are subject to change by the Commission as authorized by General Order 96-A, sections IX and X. T

b. Contract Terms T

1) Contract terms will be as negotiated between SoCalGas and the customer. Negotiated rates cannot be less than adopted short run marginal costs. T

2) Contracts involving Rule 38 incentives will be assumed to run for five years, unless stated otherwise in the Contract. Contracts involving California Red Team will be as negotiated. If no term is set, the contract will be assumed to run for five years. T

3) SoCalGas may, at its option, file an application with the Commission requesting that a contract receive treatment under this program for a period beyond five years. T

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PRELIMINARY STATEMENT Sheet 27 T
PART XI
PERFORMANCE BASED REGULATION
(Continued)

L. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued) T
D
3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued) T

c. Customers T

1) Any load associated with a noncore commercial and industrial customer is eligible under this program. T

2) Contracts not qualifying for this regulatory treatment are: T

a) An existing customer that could economically connect to a bypass pipeline. T

b) A new customer (no recorded usage in the previous 12 months) in close proximity to a bypass pipeline. T

c) A customer who previously received discounts to prevent fuel switching to a petroleum distillate fuel. T

3) SoCalGas shall determine which contracts to include in this program, subject to review by the Commission. T

4) A new customer will have a baseload volume of zero. T

5) If new equipment is installed at a customer site under a contract qualifying for this program, and the equipment is separately metered, then only the metered volumes and revenues will receive treatment under this program. T

6) If the new load is not separately metered, then base load volumes will be calculated as the average annual volume over the previous 24 months. If there are unusual characteristics that would cause the customer's 24 month history to be unrepresentative of average annual expected throughput, SoCalGas will select a different period of time that is more representative. T

(Continued)

PRELIMINARY STATEMENT
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(Continued)

L. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued) T
D

3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued) T

d) Regulatory Requirements T

1) At the end of every calendar year, SoCalGas shall file with the Commission a confidential report showing a summary of activity under this program. The report will show the number of qualifying contracts, qualifying volumes, revenues received for qualifying volumes, and amounts credited to ratepayers for baseload volumes. T

2) Customers must sign an affidavit attesting that the contract structure (in case of Red Team contracts) or the incentives (in case of Rule 38) were a material factor in the customer's decision to participate. T

3) SoCalGas shall track all volumes that qualify under this program. These volumes will be excluded from forecasts adopted for cost allocation purposes for a period of five years after the start of each contract. T

4) Revenues from customers and contracts qualifying under this are separated into two components: T

a) Baseload revenues, calculated as the applicable baseload volumes times the otherwise applicable tariff. T

b) Load growth related revenues, calculated as total revenues received from the customer minus baseload revenues. T

Base load revenues will be credited to the Noncore Fixed Cost Account. Load Growth Related Revenues will be credited to the shareholder. Both revenues will be incorporated into the Earnings Sharing Mechanism as described in Section G.

5) SoCalGas will track any contract specific costs incurred to support volumes qualifying under this program. Any costs incurred for separate metering, service lines, regulators, main extensions, etc. to serve specific locations that qualify under this program would be tracked. As long as the contract volumes are exempt from inclusion in cost allocation proceedings, these costs will not be included in the authorized utility revenue requirement. T

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