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November 1, 2005

Advice No. 3544  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Post-Test Year 2006 Rate Adjustment**

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) revisions to SoCalGas' revenue requirements and rates effective January 1, 2006.

This filing is made in compliance with Ordering Paragraph No. (OP) 2 of Decision (D.) 05-03-023, dated March 17, 2005, in Phase 2 of SoCalGas' Cost of Service (COS) Application (A.) 02-12-027.

**Purpose**

This filing implements the base margin adjustment for 2006, as authorized by D.05-03-023 including Appendix C, Settlement Agreement Regarding Phase 2 Base Margins Issues. In the decision's Conclusion of Law No. 10, the Commission concluded it is reasonable to recalibrate each year's base margin using actual index values before calculating the subsequent year's base margin. As such, SoCalGas includes a recalibration of the 2005 base margin prior to calculating the base margin for 2006. The overall base margin change is an increase of \$52.317 million in SoCalGas' current transportation revenue requirement

**Information**

For post-test year ratemaking, pursuant to Preliminary Statement Part XI, Performance Based Regulation (PBR), Section J.1, SoCalGas is authorized to file on or before November 1 for rate adjustments to change its authorized revenues for the following year using the Commission-approved indexing mechanism as described in Preliminary Statement Part XI, Section D.

SoCalGas will file an advice letter consolidating all Commission-authorized changes in its revenue requirements, and the related changes to its rates, at least three days prior to the January 1, 2006 effective date of such rates, including an adjustment for the Sempra-wide common electric generation rate.

### CPI Indexing Mechanism

Pursuant to the indexing mechanism adopted by D.05-03-023, 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. The rates adopted under this indexing mechanism shall not be trued-up with the actual year's indices and are considered final; however, in establishing the subsequent year's base margin revenue requirements, the prior years' authorized base margin shall be recalibrated to reflect actual index values, which would continue to be subject to the floor and ceiling CPI. The minimum and maximum increases for the escalated portion of base margin are 2% and 3%, respectively, for 2005, and 2.5% and 3.5%, respectively, for 2006.

SoCalGas' 2004 authorized base margin (SoCalGas revenue requirement less exclusions) was \$1,397,508,000. In recalibrating SoCalGas' 2005 base margin escalation, average annual CPI figures from Global Insight's October 2005 forecast were used. The CPI published for 2004 and 2005 were 1.888917 and 1.954161, respectively, resulting in a 2005 CPI increase of 3.454043% ( $1.954161 / 1.888917 - 1$ ). Since 3.454043% is above SoCalGas' approved maximum base margin escalation adjustment for 2005, the maximum of 3.00% will be used. SoCalGas' recalibrated 2005 authorized base margin (less exclusions) is therefore:

$$1.030 \times \$1,397,508,000 = \$1,439,433,240$$

Global Insight's October 2005 forecast for 2006 CPI was 2.006213, resulting in a predicted 2006 CPI increase of 2.663650% ( $2.006213/1.954161 - 1$ ). Since 2.663650% is between SoCalGas' approved minimum and maximum base margin escalation limits for 2006, the forecasted increase of 2.663650% will be used. Beginning with SoCalGas' recalibrated 2005 base margin as computed above, SoCalGas' 2006 authorized base margin (less exclusions) is therefore:

$$1.02663650 \times \$1,439,433,240 = \underline{\$1,477,774,696} - \text{an increase of } \$52,316,536 \text{ over the previously authorized 2005 base margin of } \$1,425,458,160 \text{ (in Advice No. 3487, dated April 11, 2005).}$$

As filed in Advice No. 3484, dated April 1, 2005, SoCalGas' PBR Preliminary Statement Part XI, Section D.1, indicates that the base margin revenue requirements established for the year are the PBR-indexed portion of the 2004 base margin, plus the add-back of pension costs, PBOPS and RD&D revenue requirements which were excluded from the PBR indexing calculations. SoCalGas' 2006 authorized base margin including the PBR-indexing exclusions and other authorized adjustments is therefore the sum of the following components:

\$1,477,774,696	PBR-indexed COS Base Margin
\$4,000,000	Base Margin Pension Costs
\$47,500,000	Base Margin PBOPS Costs
<u>\$8,000,000</u>	<u>Base Margin RD&amp;D Costs</u>
\$1,537,274,696	Total COS Base Margin

**Revenue Requirement Impact by Class of Service**

<u>Class of Service</u>	<u>Applicable Rate Schedules</u>	<u>Net M\$ Increase/(Decrease)</u>
Core	GR, GT-R, GS, GT-S GM, GT-M, GMB, GT-MB GRL, GT-RL, GSL, GT-SL GO-SSA, GTO-SSA, GO-SSB GTO-SSB, GO-AC, GTO-AC, GL GN-10, GT-10, GN-10L, GT-10L G-AC, GT-AC, G-EN, GT-EN, G-NGV, GT-NGV	45,406
Noncore	GT-F, GT-I	4,743
Wholesale	GT-SD, GW-LB, GW-SD, GW-SWG, GW-VRN	915
Storage	G-BSS, G-LTS, G-AUC, G-TBS	0
International		22
Unallocated Costs to NSBA		1,230
<u>TOTAL</u>		<u>52,317</u>

Included with this filing is a Summary of Annual Gas Transportation Revenues (Attachment B).

**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 of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division  
Attn: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Jerry Royer ([jjr@cpuc.ca.gov](mailto:jjr@cpuc.ca.gov)) and to Honesto Gatchalian ([ijnj@cpuc.ca.gov](mailto:ijnj@cpuc.ca.gov)) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

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**Effective Date**

SoCalGas believes that this filing is subject to Energy Division disposition and therefore respectfully requests that this advice letter become effective January 1, 2006, which is more than thirty (30) calendar days after the date filed.

**Notice**

A copy of this advice letter is being sent to all parties listed on Attachment A, which includes the parties on SoCalGas' Cost of Service A.02-12-027.

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Attachments



**ATTACHMENT A**

**Advice No. 3544**

**(See Attached Service Lists)**

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PO BOX 4060  
MODESTO, CA 95352

**Attachment B**  
**Southern California Gas Company**  
**SUMMARY OF ANNUAL GAS TRANSPORTATION REVENUES**  
*Post-Test Year Rate Adjustment for 2006*

	BCAP Volumes	At Present Rates		At Proposed Rates		Change (Increase / Decrease)			
		Revenues	Average Rate	Revenues	Average Rate	Revenues	Rates	Percent	
A	B	C	D	E	F	G	H	I	
	(Mth)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(%)	
<b><u>CORE PROCUREMENT</u></b>									
1 Residential	2,484,024	\$1,121,395	\$0.45144	\$1,158,211	\$0.46626	\$36,816	\$0.01482	3%	1
2 Large Master Meter	37,360	\$9,506	\$0.25444	\$9,793	\$0.26213	\$287	\$0.00769	3%	2
3 Commercial & Industrial	700,113	\$207,020	\$0.29570	\$213,720	\$0.30526	\$6,700	\$0.00957	3%	3
4 Gas A/C	1,060	\$148	\$0.13974	\$153	\$0.14392	\$4	\$0.00418	3%	4
5 Gas Engine	15,240	\$3,076	\$0.20182	\$3,076	\$0.20184	\$0	\$0.00003	0%	5
6 Total Core Procurement	3,237,796	\$1,341,145	\$0.41422	\$1,384,953	\$0.42775	\$43,808	\$0.01353	3%	6
<b><u>CORE TRANSPORTATION</u></b>									
7 Residential	25,091	\$11,222	\$0.44725	\$11,594	\$0.46207	\$372	\$0.01482	3%	7
8 Large Master Meter	377	\$94	\$0.25025	\$97	\$0.25794	\$3	\$0.00769	3%	8
9 Commercial & Industrial	134,522	\$37,201	\$0.27654	\$38,423	\$0.28563	\$1,222	\$0.00909	3%	9
10 Gas A/C	140	\$19	\$0.13555	\$20	\$0.13973	\$1	\$0.00418	3%	10
11 Gas Engine	800	\$158	\$0.19763	\$158	\$0.19765	\$0	\$0.00003	0%	11
12 Total Core Transportation	160,930	\$48,694	\$0.30258	\$50,292	\$0.31251	\$1,598	\$0.00993	3%	12
13 TOTAL CORE	3,398,727	\$1,389,839	\$0.40893	\$1,435,245	\$0.42229	\$45,406	\$0.01336	3%	13
<b><u>NONCORE</u></b>									
14 Commercial & Industrial	1,456,757	\$87,843	\$0.06030	\$90,320	\$0.06200	\$2,477	\$0.00170	3%	14
15 SoCalGas EG Stand-Alone	2,944,257	\$99,138	\$0.03367	\$101,405	\$0.03444	\$2,266	\$0.00077	2%	15
16 + Sempra-Wide EG Adjustment	2,944,257	\$11,576	\$0.00393	\$11,576	\$0.00393	\$0	\$0.00000	0%	16
17 = Electric Generation Total	2,944,257	\$110,715	\$0.03760	\$112,981	\$0.03837	\$2,266	\$0.00077	2%	17
18 Retail Noncore Total <sup>1</sup>	4,401,014	\$198,558	\$0.04512	\$203,301	\$0.04619	\$4,743	\$0.00108	2%	18
<b><u>WHOLESALE</u></b>									
19 Long Beach	77,821	\$2,511	\$0.03227	\$2,566	\$0.03297	\$55	\$0.00070	2%	19
20 SDG&E	1,445,680	\$38,283	\$0.02648	\$39,057	\$0.02702	\$774	\$0.00054	2%	20
21 Southwest Gas	91,672	\$2,773	\$0.03025	\$2,831	\$0.03088	\$58	\$0.00063	2%	21
22 City of Vernon	51,620	\$1,416	\$0.02743	\$1,445	\$0.02799	\$29	\$0.00056	2%	22
23 Wholesale Total	1,666,793	\$44,983	\$0.02699	\$45,898	\$0.02754	\$915	\$0.00055	2%	23
<b><u>INTERNATIONAL</u></b>									
24 Mexicali - DGN	36,419	\$1,067	\$0.02931	\$1,090	\$0.02992	\$22	\$0.00061	2%	24
25 Unbundled Storage	n/a	\$21,000	n/a	\$21,000	n/a	\$0	n/a	0%	25
26 Unallocated Costs to NSBA	n/a	\$13,297	n/a	\$14,527	n/a	\$1,230	n/a	9%	26
27 SYSTEM TOTALS <sup>1</sup>	9,502,953	\$1,668,745	\$0.17560	\$1,721,061	\$0.18111	\$52,317	\$0.00551	3%	27
28 EOR Revenues	482,707	\$22,777	n/a	\$22,777	n/a	\$0	n/a	0%	28

<sup>1</sup> Does not include EOR revenues shown at Line 28.