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May 1, 2006

Advice No. 3629
(U 904 G)

Public Utilities Commission of the State of California

Subject: 2005 PBR Shareable Earnings Filing

Southern California Gas Company (SoCalGas) hereby submits for filing and approval with the California Public Utilities Commission (Commission) its shareable earnings filing. This filing is made in compliance with Decision No. (D.) 05-03-023, dated March 17, 2005, and Preliminary Statement Part XI, Performance Based Regulation (PBR), in Phase II of SoCalGas' Cost of Service (COS) Application No. (A.) 02-12-027.

Purpose

As reported in Attachment B, this filing consists of: 1) earnings to be shared with ratepayers under the existing PBR mechanism; 2) rewards or penalties for customer service and safety performance indicators; 3) SoCalGas' performance on customer service monitor-only indicators; and 4) the results of the Core Pricing Flexibility program and Noncore Competitive Load Growth Opportunity program as adopted in D.97-07-054 and D.00-04-060, respectively.

For the year ended December 31, 2005, SoCalGas' actual Rate of Return (ROR) was 10.13% as compared to the authorized ROR of 8.68% resulting in sharing of \$34,604,839 between ratepayers and shareholders. The ratepayers' allocation of earnings above authorized levels, grossed-up for taxes and franchise fees and uncollectible costs, is \$19,011,000. SoCalGas exceeded the PBR benchmark on three of its five customer service and safety performance indicators resulting in a total net award of \$553,000.

Protests

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and received within 20 days of the date of this Advice Letter. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

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) and to Honesto Gatchalian (jnj@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.

Attn: Sid Newsom
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Facsimile No. (213) 244-4957
E-mail: snewsom@SempraUtilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition, and therefore respectfully requests that this advice letter be approved May 31, 2006, which is 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 parties on the service list in A.02-12-027.

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Attachments

ATTACHMENT A

Advice No. 3629

(See Attached Service Lists)

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I. EXECUTIVE SUMMARY

The report constitutes an accumulation of annual reporting requirements pursuant to Decision (D.) 05-03-023, dated March 17, 2005, and Preliminary Statement Part XI, Performance Based Regulation (PBR), in Phase II of the Southern California Gas Company's (SoCalGas) Cost of Service (COS) Application No. 02-12-027. This decision adopted a PBR mechanism for SoCalGas with respect to the setting of the company's gas transportation rates. This report constitutes the summary of the final 2005 year-end results of operations under that mechanism, and includes a report on the earnings sharing and performance indicator results for the year ending December 31, 2005.

For the year ending December 31, 2005, SoCalGas' actual rate of return (ROR) was 10.13 percent, as compared to a 2005 authorized ROR of 8.68 percent. As a result, SoCalGas' actual ROR is greater than its authorized ROR by 1.45 percent, resulting in sharing of \$34,604,839 between ratepayers and shareholders under the PBR earnings sharing mechanism.

In addition, SoCalGas exceeded the PBR benchmarks on three of its five performance indicators for 2005. This resulted in a total net reward of \$553,000. The 2005 performance indicators include incentives for employee safety, phone / office contact satisfaction, field visit satisfaction, call center responsiveness, and field service order appointments provided / percent made. This report also provides performance results for nine monitor only indicators covering other areas of SoCalGas' customer service.

Finally, this report includes information on SoCalGas' net incremental revenues associated with its Core Pricing Flexibility and Noncore Competitive Load Growth Opportunities programs.

II. Earnings Sharing Results

A. Background

SoCalGas' PBR, as adopted in D.05-03-023, provides for a sharing of earnings between ratepayers and shareholders on a progressive basis as earnings exceed the authorized rate of return (ROR). The PBR authorizes a mechanism by which earnings are shared within "bands" above a benchmark ROR on rate base. Shareholders will retain 100% of the earnings up to 50 basis points (0.50%) above the benchmark ROR. Between 51 basis points and 300 basis points above the benchmark are 6 bands with progressive sharing of earnings between shareholders and ratepayers. Within the bands, the shareholder share of earnings rises stepwise from 25% to 75%, as the ratepayer share correspondingly declines from 75% to 25%, as identified in the table below. If earnings exceed 300 basis points above the benchmark, 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. Specifics of the sharing mechanism are detailed in Advice No. 3484.

The benchmark ROR was 8.68% for the year 2005 as last updated pursuant to Advice No. 3199-A, SoCalGas' "MICAM" filing, and effective January 1, 2003.

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

<u>Bands</u>	<u>Basis Points</u>	<u>Shareholder %</u>	<u>Ratepayer %</u>
Inner	00-50	100%	00%
1	51-100	25%	75%
2	101-125	35%	65%
3	126-150	45%	55%
4	151-175	55%	45%
5	176-200	65%	35%
6	201-300	75%	25%
Outer	301-above	Suspension	

B. Earnings Sharing Update

SoCalGas' 2005 net operating income (NOI) was \$259,120,256. After adjustments pursuant to SoCalGas' PBR, NOI subject to PBR sharing (i.e., PBR Shareable Earnings) was \$241,703,042. The authorized return was \$207,098,203; therefore, PBR Shareable Earnings totaled \$34,604,839 for 2005. The shareholder portion is \$19,151,064 and the ratepayer portion before gross-up is \$15,453,775. Pursuant to SoCalGas' PBR, the ratepayer portion is "grossed-up" to achieve sharing of tax and FF&U benefits. The grossed-up portion distributed to ratepayers will be \$19,011,000.

Please refer to the two subsequent pages for details on the PBR Shareable Income and sharing of earnings between shareholders and ratepayers.

The following table calculates the NOI subject to sharing and the ratepayer and shareholder amounts:

PBR Rate Base ROR Sharing Calculation		
Net Operating Income		\$259,120,256 (1)
Less: PBR Adjustments (pre-tax):		
NFCA	(\$173,092) (2)	
NSBA	(20,037,177)	
EOR Incentives	(842,899)	
NGV Sharing	(839,880)	
DSM Award	(2,659,033)	
Pitco / Popco	(63,161) (3)	
Montebello Storage Facility	(2,161,397) (4)	
GCIM Award per GCRPA	(2,840,640) (5)	
Affiliate Compliance Audit Costs	110,672 (6)	
Affiliate Oil Costs	112,859 (6)	
Research Royalties	(2,394) (7)	
Total Pre-Tax Adjustment	<u>(29,396,142)</u>	
Less: Taxes	<u>40.75%</u> (11,978,928)	
PBR Adjustment (After Tax)		<u>(17,417,214)</u>
Total Recorded Return / Operating Income	<u>10.13%</u>	<u>\$241,703,042</u>
Ratepayer portion (before gross-up)		15,453,775
Shareholder Portion		19,151,064
Authorized Return	<u>8.68%</u>	<u>207,098,203</u>
Total		<u>\$241,703,042</u>
Ratepayer Portion Gross-up:		
Average Ratepayer Sharing percentage {r}	<u>44.66%</u>	
Combined FF&U and Income Tax factor {t}	<u>41.90%</u>	
Ratepayer Portion Grossed-up (ratepayer / (1 - r * t))		<u>\$19,011,000</u>

Notes:

- (1) Net Operating Revenues as reported on SoCalGas SEC 10K report adjusted for contingent liabilities as required for financial reporting purposes under GAAP but not authorized by the CPUC for ratemaking purposes.
- (2) Represents prior period billings subject to NFCA sharing mechanism per D.00-04-060.
- (3) Represents refund of state taxes subject to PPTCA sharing mechanism per D.94-07-064.
- (4) Represents shareholder allocation of net proceeds per D.01-04-081.
- (5) Represents calculated GCIM award recorded in GCRPA per D.02-06-023.
- (6) Represents shareholder affiliate costs per D.97-12-088.
- (7) Represents post-PBR royalties subject to RRMA sharing mechanism per D.97-07-054.

The tables below detail the shareholder and ratepayer allocations by the sharing bands:

PBR ROR Sharing Calculation				
Bands	Basis Points		Operating Income	
	Beg	End	Beg	End
Inner	0	50	\$207,098,203	\$219,027,823
1	51	100	219,027,823	230,957,443
2	101	125	230,957,443	236,922,253
3	126	150	236,922,253	242,887,063
4	151	175	242,887,063	248,851,873
5	176	200	248,851,873	254,816,683
6	201	300	254,816,683	278,675,923
Outer	301	above	278,675,923	

Bands	Shareholder		Ratepayer		Avg RP %	Total
	%	Amount	%	Amount		
Inner	100%	\$11,929,620	0%	\$0	0.00%	\$11,929,620
1	25%	2,982,405	75%	8,947,215	37.50%	11,929,620
2	35%	2,087,684	65%	3,877,127	43.00%	5,964,810
3	45%	2,151,355	55%	2,629,434	44.66%	4,780,789
4	55%		45%			
5	65%		35%			
6	75%		25%			
Outer	Suspension					
Total		\$19,151,064		\$15,453,775	44.66%	\$34,604,839

Month	Through Dec 2005
Adjusted Recorded Operating Income	\$241,703,042
Weighted Average Rate Base	2,385,924,000
Authorized Rate of Return	8.68%
Recorded Rate of Return	10.13%
Differential	1.45%

III. Performance Indicator Results

A. Employee Safety

Rewards or penalties for employee safety are determined based on the Federal Occupational Safety and Health Administration (OSHA) frequency standard, measuring the regulated utility's OSHA recordable lost-time and non-lost-time injuries and illnesses against total utility working hours. For the year ending December 31, 2005, SoCalGas experienced 395 lost time and non-lost time incidents. The 395 total OSHA recordable incidents result in a frequency of 6.53.

The calculation of the OSHA Frequency is as follows:

Employee Safety	2005
Total OSHA Recordable Cases	395
x 100 employees at 2,000 hours / year	200,000
= Total OSHA Recordable Hours	79,000,000
/ Total utility year-to-date work hours	12,103,652
= Total OSHA Frequency	6.53

For 2005, rewards and penalties for Employee Safety Performance Indicator are based on the following parameters:

Benchmark:	6.19
Deadband:	6.02 – 6.36
Liveband:	+/- 2.0
Unit of Change:	0.01
Incentive per unit:	\$25,000 / 0.01
Maximum incentive:	+/- \$5,000,000

For 2005, SoCalGas' performance for the Employee Safety Performance Indicator resulted in a \$425,000 penalty. The penalty is calculated as follows:

Benchmark	6.19
OSHA Frequency	6.53

	0.34
Less deadband	0.17

Units below Benchmark	0.17
	÷
Unit of change	0.01

Units per change	17
	X
Incentive per unit	\$25,000

Penalty	\$425,000

During 2005, management made significant efforts to focus on employee safety from a top-down approach. An executive safety committee comprised of all operating officers and chaired by Sempra Energy Utility's President was established with each Vice-President (VP) maintaining a subcommittee on safety for their own business unit. In addition, SoCalGas' safety department was reorganized to provide for a stronger focus on safety culture and client needs. For 2006, the company continues to improve and enhance its focus on safety leadership, employee training, job observations, organizational support on safety issues, and leadership coaching and mentoring. In addition, management has established a pilot program on fitness education, exercising, and stretching which is currently being conducted at select field bases to target the prevention of strains and sprains, which is one of the company's prevalent injury types. In addition, each VP has developed and is in the process of implementing a safety action plan addressing specific safety issues for their particular organization.

B. Customer Service Performance Indicators

SoCalGas' performance on its four Customer Service Performance Indicators is measured to ensure appropriate service quality levels are maintained. Rewards or penalties are assessed on the performance of the four indicators as detailed below.

1. Phone / Office Contact Satisfaction

This Performance Indicator represents a composite measure of the customers' satisfaction with their overall experience with SoCalGas' Customer Contact Center (CCC) and Branch Offices. As noted in the table below, SoCalGas achieved an 88.9% customer satisfaction result for the year ended December 31, 2005.

Phone / Office Contact Satisfaction	2005
<u>Results:</u> (measured as percent of ratings 8-10 on 0-10 scale)	
1st quarter	87.3%
2nd quarter	89.1%
3rd quarter	89.9%
4th quarter	89.1%
Annual Result	88.9%

For 2005, rewards and penalties for the Phone / Office Contact Satisfaction Performance Indicator are based on the following parameters:

Benchmark:	83.4%
Deadband:	84.4% – 82.4%
Liveband:	+/- 5%
Unit of Change:	0.1
Incentive per unit:	\$10,000 / 0.1
Maximum incentive:	+/- \$500,000

For 2005, SoCalGas' performance for the Phone / Office Contact Satisfaction Performance Indicator resulted in a \$450,000 reward. The reward is calculated as follows:

Benchmark	83.4
Result Achieved	88.9

	5.5
Less deadband	1.0

Units above Benchmark	----- 4.5
Unit of change	÷ 0.1
Units per change	----- 45
Incentive per unit	X \$10,000
Reward	----- \$450,000

Activities to enhance and improve SoCalGas' performance in this area are similar to those for the Field Visit Satisfaction Performance Indicator. As such, refer to write-up below.

2. Field Visit Satisfaction

This Performance Indicator represents a measure of the customers' satisfaction with their overall experience with a field service visit. As noted in the table below, SoCalGas achieved a 95.0% customer satisfaction result for the year ended December 31, 2005.

Field Visit Satisfaction	2005
<u>Results:</u> (measured as percent of ratings 8-10 on 0-10 scale)	
1st quarter	94.3%
2nd quarter	95.3%
3rd quarter	95.4%
4th quarter	95.0%
Annual Result	95.0%

For 2005, rewards and penalties for the Field Visit Satisfaction Performance Indicator are based on the following parameters:

Benchmark:	94.1%
Deadband:	95.1% – 93.1%
Liveband:	+/- 5%
Unit of Change:	0.1
Incentive per unit:	\$10,000 / 0.1
Maximum incentive:	+/- \$500,000

For 2005, SoCalGas' performance for the Field Visit Satisfaction Performance Indicator exceeded the benchmark but did not exceed the deadband. As a result, there is no reward.

As the company continues to focus on improving and enhancing customer satisfaction performance in customer contact and field service visits, SoCalGas has undertaken various measures and activities including the following:

- Customer Satisfaction Survey Team - The Customer Satisfaction Survey Team, which includes representatives from all operating areas, meets quarterly to review results, explores customer needs and expectations, and shares ideas and recommendations for improving customer service.
- Focus on Key Drivers of Customer Satisfaction - Annually, key drivers of customer satisfaction are identified, and training and improvement efforts are focused on specific elements most important to customers continually throughout the year. For example, every month field service teams communicate the key drivers to reinforce the types of service that customers find most satisfying.
- Review of Customer Questionnaires - On a weekly basis, most managers review copies of completed questionnaires documenting customer comments and ratings on SoCalGas' performance to quickly address any negative trends. In addition, customer service operating teams review comments and complaints to identify opportunities for coaching and to improve performance and training to better serve customers.
- Employee Recognition Program - In maintaining employee focus on customer service, SoCalGas continues to award superior customer service through its employee recognition program.

3. Call Center Responsiveness

This Performance Indicator represents a measure of how quickly SoCalGas responds to customer calls. As noted in the table below, SoCalGas responded to 82.6% of calls within 60 seconds for the year ended December 31, 2005.

Call Center Responsiveness	2005
Calls Answered within 60 seconds	8,517,887
/ Total Calls Offered	10,309,203
= Percent of Calls Accepted within 60 seconds	82.6%

For 2005, rewards and penalties for the Call Center Responsiveness performance indicator are based on the following parameters:

Benchmark:	80% within 60 seconds
Deadband:	82% – 78%
Liveband:	+/- 5%
Unit of Change:	0.1
Incentive per unit:	\$30,000 / 0.1
Maximum incentive:	+/- \$1,500,000

For 2005, SoCalGas' performance for the Call Center Responsiveness Performance Indicator resulted in a reward of \$180,000. The reward is calculated as follows:

Benchmark	80.0
Result Achieved	82.6

	2.6
Less deadband	2.0

Units above Benchmark	0.6
	÷
Unit of change	0.1

Units per change	6
	X
Incentive per unit	\$30,000

Reward	\$180,000

As the company continues to focus on improving and enhancing customer satisfaction in call center responsiveness, SoCalGas has placed considerable focus on adequate and well-trained employees at its CCC recognizing that optimal staffing is a key driver to customer service satisfaction. In addition, the CCC continues to emphasize effective and efficient call handling in an effort to minimize handle time and, in turn, increase responsiveness. Additional focus is also being given to system enhancements including the Interactive Voice Response (IVR) unit and On-line Customer Service Options. As IVR and on-line system utilization increase, SoCalGas will continue with further technology and programming enhancements that will improve the customers' overall experience.

4. Field Service Order Appointments Provided / Percent Made

This Performance Indicator represents a measure of the frequency with which SoCalGas provides customers with service window appointments and the frequency with which SoCalGas meets those commitments. As noted in the table below, SoCalGas provided appointments for 55.24% of all eligible field service orders and met 98.89% of those appointments for the year ended December 31, 2005.

Field Service Order Appointments Provided / Percent Made		2005
Appointments Provided		651,299
/ Number of Eligible Orders		1,179,108
= Percent of Appointments Provided		55.24%
Percent of Appointments Met		98.89%

For 2005, there are seven bands by which the Field Service Order Appointments Provided is assessed in terms of Percentage of On-Time Arrivals (Percent Made). The maximum reward or penalty is +/- \$600,000 and is assessed in increments of \$12,000 per each 0.1% change in Percent On-Time Arrivals (Percent Made) within each of the seven Percent Appointments Provided bands. The parameters for targets, deadbands, and livebands for the seven bands are as follows:

Field Service Order Appointments Provided / Percent Made 2005				
Band	Target	Deadband	Liveband	
			Penalty	Reward
35% or Below	100.00%	none	95.01% - 100%	none
>35% - 40%	99.01%	99.01 - 100%	94.01% - 99%	none
>40% - 45%	99.01%	none	94.01% - 99%	99.01% - 100%
>45% - 50%	98.01%	none	93.01% - 98%	98.01% - 100%
>50% - 55%	97.01%	none	92.01% - 97%	97.01% - 100%
>55% - 60%	96.01%	none	91.01% - 96%	96.01% - 100%
>60%	95.01%	none	90.01% - 95%	95.01% - 100%

For 2005, SoCalGas' performance for the Field Service Order Appointments Provided / Percent Made Performance Indicator resulted in a reward of \$348,000. SoCalGas' 55.24% of appointments provided falls within the

>55% - 60% band. Using the parameters of this band, the reward is calculated as follows:

Benchmark	96.01
Result Achieved	98.89

	2.88
Less deadband	0.00

Units above Benchmark (rd)	2.9
	÷
Unit of change	0.1

Units per change	29
	X
Incentive per unit	\$12,000

Reward	\$348,000

C. Customer Service Monitor Only Indicators

In addition to the Performance Indicators listed above, the Commission adopted nine additional indicators to measure service quality levels. The table below provides results on a quarterly basis for each of these monitor only indicators for the year ended December 31, 2005.

Performance Indicator	2005	1st qtr	2nd qtr	3rd qtr	4th qtr
A Level of busy signals 1/	0.021%	0.0004%	0.013%	0.015%	0.054%
B Estimated meter reads 2/	1.05%	1.06%	0.92%	1.08%	1.16%
C Leak response time 3/	93.66%	93.04%	94.62%	93.44%	93.27%
D Missed appointments 4/	n/a	n/a	n/a	n/a	n/a
E Problems resolved on first visit 5/	92.5%	91.0%	92.8%	93.0%	93.0%
F Elapsed time 6/	2.91	2.27	2.82	2.90	3.64
G Percentage of abandoned calls 7/	3.1%	3.5%	3.1%	2.5%	3.2%
H Shortest time to CSR 8/					
Leaks/downed lines/outages	64 seconds	64 sec	64 sec	64 sec	64 sec
Billing/Credit	198 seconds	198 sec	198 sec	198 sec	198 sec
Start/stop service	222 seconds	222 sec	222 sec	222 sec	222 sec
I Complaints 9/					
Credit & Collections	1388	252	271	407	458
Customer Assistance	177	51	38	41	47
Customer Contact Centers	1556	366	401	387	402
Marketing	120	21	28	38	33
Mass Marketing Billing	298	74	74	72	78
Meter Reading	5858	1388	1326	1531	1613
Other	162	39	33	41	49
Customer Field Services	7142	1726	1632	1723	2061
Unsafe Driving (Northern)	43	6	17	12	8
Total Complaints	16744	3923	3820	4252	4749

Notes:

1/ Represents the combined total of busy signals and busy messages in the Call Center.

2/ Percentage of total meter reads that resulted in an estimated bill.

3/ Percentage of leak calls responded to within 30 minutes Monday through Saturday between 7 am. and 5 pm. and within 45 minutes during other times.

4/ SoCalGas Service Guarantee Program did not begin until 2006, so no data presented for 2005.

5/ Percentage of survey respondents indicating their problems were resolved on the first service call. (Question #36 of SoCalGas' Customer Satisfaction Survey.)

6/ Number of days from the time a customer requests a field service order to the time that SoCalGas arrives at the customer's premises.

7/ Anytime a customer hangs up after making a menu selection and before speaking with a customer service representative (CSR) or completing an automated transaction.

8/ The times indicated will only vary between quarters with menu changes.

 Shortest number of minutes (for a new caller) between the call connection to the first menu and the menu choice for the CSR.

9/ Number of complaints recorded in the SoCalGas Complaint Tracking System. All complaints are entered by the CSR regardless if the complaint warrants immediate attention by a Lead and/or Supervisor and also includes complaints that are forwarded to other departments for follow-up or action, but not requiring a call back to the customer.

D. Summary of Performance Indicator Results

The following table summarizes SoCalGas' Performance Indicator results for the year ended December 31, 2005:

Performance Indicator Results For Year Ended December 31, 2005	Reward / (Penalty)
Employee Safety	(\$425,000)
Phone / Office Contact	450,000
Field Visit	0
Call Center Responsiveness	180,000
Field Service Order Appointments Provided / Percent Made	348,000
Total (net) Reward	\$553,000

IV. Other PBR Programs

A. Core Pricing Flexibility Program

In D.97-07-054 and D.98-01-040, the Commission authorized a Core Pricing Flexibility program for SoCalGas as detailed in Section K.2 of AL 2687-A. This program remained unchanged with the approval of the 2004 COS proceeding. Under this arrangement, SoCalGas shareholders are responsible for any reduction in core revenues that may occur due to discounting, while revenue gains will be shared between ratepayers and shareholders in accordance with the PBR sharing mechanism. The Commission has authorized a Core Fixed Cost Account (CFCA) adjusting mechanism to adjust the CFCA by revenue gains to be shared between ratepayers and shareholders.

The Core Pricing Flexibility program produced incremental net revenues, which are included in SoCalGas' NOI, in the amount of \$747,795.¹

B. Noncore Competitive Load Growth Opportunities Program

In D.00-04-060, the Commission authorized SoCalGas' revenue treatment for new negotiated contracts that are part of a California Red Team economic development effort and contracts where Rule 38 shareholder funding has been used. This program remained unchanged with the approval of the 2004 COS proceeding. Under this arrangement, SoCalGas shareholders are responsible for any reduction in noncore revenues that may occur due to discounting, while revenue gains will be shared between ratepayers and shareholders in accordance with the PBR sharing mechanism. The Commission has authorized a Noncore Fixed Cost Account (NFCA) adjusting mechanism to adjust the NFCA by revenue gains to be shared between ratepayers and shareholders.

The noncore competitive Load Growth Opportunities program produced incremental net revenues, which are included in SoCalGas' NOI, in the amount of \$528,534.¹

¹ The data presented here is for information only per Preliminary Statement XI, items K and L. The amounts have been included in the Net Operating Income listed in the table in Section II. B. of this report and are subject to PBR sharing.