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October 12, 2006

Advice No. 3654-A
(U 904 G)

Public Utilities Commission of the State of California

Subject: Supplemental - Revisions to Self-Generation Program Memorandum Account (SGPMA) and the California Solar Initiative Balancing Account (CSIBA)

Southern California Gas Company (SoCalGas) hereby submits for filing revisions to its Preliminary Statement, Part V, Balancing Accounts and Part VI, Memorandum Accounts, as shown on Attachment B.

Purpose

SoCalGas files this supplemental advice letter to replace in its entirety Advice No. 3654 filed on August 16, 2006 as directed by the Energy Division. This supplemental advice letter is necessitated by the passage of Senate Bill (SB) 1 on August 21, 2006, as explained in detail below. Consistent with SB 1 SoCalGas revises its CSIBA to only record activity related to 2006 solar program commitments beginning January 1, 2007. In addition, SoCalGas plans to transfer any remaining 2006 solar program funds initially recorded in the SGPMA at December 31, 2006 to the CSIBA consistent with California Public Utilities Commission (Commission) Decision (D.) 06-01-024. SoCalGas also revises its SGPMA to record the authorized revenue requirements beginning January 1, 2007 in accordance with the provisions of D.06-01-024.

Background

Pursuant to D.05-12-044, the Commission authorized increased funding for California utilities by \$300 million in 2006 for solar photovoltaic technologies that are currently part of the Self-Generation Incentive Program (SGIP). The California Solar Initiative (CSI) responds to a policy proclamation by the Governor favoring solar development and strong interest by the State Legislature in an expanded solar incentives program in California. CSI is a long-term program to provide incentives for the installation of solar energy technologies in California over the next ten years. Pursuant to D.05-12-044, SoCalGas incorporated the annual CSI revenue requirement in 2006 rates and requested

modification to its SGPMA to begin recording the authorized annual revenue requirement associated with the CSI program¹.

On January 12, 2006, the Commission issued D.06-01-024, which establishes additional policies and program elements designed to promote solar development and provides additional funding of \$2.5 billion over the next ten years. In D.06-01-024, the Commission also authorized the utilities to collect the revenue requirement for the program concurrent with program spending for both the SGIP and CSI rather than requiring the utilities to wait until the end of the funding cycle to collect the program costs from customers.

Consequently, SoCalGas established the CSIBA to record solar program expenses and the corresponding revenue requirement beginning January 1, 2007². However, with the passage of SB 1 which requires the exclusion of gas ratepayer funding for CSI activities on and after January 1, 2007, SoCalGas will no longer be involved in the administration of the CSI program beginning with the 2007 program year. As a result of SB 1, the CSIBA as originally established will need to be modified as described below.

Modification of the SGPMA/CSIBA

Consistent with the discussion on page 8 of D.06-01-024, to ensure timely funding of SGIP costs in the future, SoCalGas will collect in rates and modify its SGPMA to record the annual revenue requirement associated with the SGIP beginning in 2007.

In addition, Conclusion of Law 2 of D.06-01-024 directs utilities to separate the CSI from the SGIP, ordering that all solar components of the SGIP be incorporated into the CSI, effective 2007, and recorded in a separate account. As such, SoCalGas plans to transfer any remaining solar funds in the SGPMA at December 31, 2006 to the CSIBA. Also, consistent with SB 1, SoCalGas plans to modify its CSIBA to only record program expenses related to 2006 solar program commitments beginning on January 1, 2007.

Protest

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 must be received within 20 days of the date 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

¹ The rate adjustment was filed in Advice No. 3570 on December 28, 2005 and approved by the Commission on March 7, 2006. Changes to the SGPMA were filed in Advice No. 3572 on December 29, 2005 and approved by the Commission on January 28, 2006.

² Advice No. 3594 dated February 15, 2006 and approved by the Commission on April 4, 2006.

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.

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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 be approved on November 11, 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 to this advice letter, which includes the service lists in R.04-03-017, Distributed Generation and R.06-03-004, California Solar Initiative.

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Attachments

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Advice No. 3654-A

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3654-A

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 41104-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, CALIFORNIA SOLAR INITIATIVE BALANCING ACCOUNT (CSIBA), Sheet 1	Revised 40891-G
Revised 41105-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, SELF- GENERATION PROGRAM MEMORANDUM ACCOUNT (SGPMA), Sheet 1	Revised 40931-G Revised 40910-G
Revised 41106-G	TABLE OF CONTENTS	Revised 41103-G Revised 40938-G
Revised 41107-G	TABLE OF CONTENTS	Revised 40929-G Revised 40933-G

PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
SELF-GENERATION PROGRAM MEMORANDUM ACCOUNT (SGPMA)

The SGPMA is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of the SGPMA is to record the incremental costs associated with SoCalGas' Self-Generation Incentive Program (SGIP) as outlined in Commission Decision (D.) 02-02-026, dated February 7, 2002; D.01-09-012, dated September 6, 2001, D.01-07-028, dated July 12, 2001, D.01-03-073, dated March 27, 2001, and the California Solar Initiative (CSI) adopted in D.05-12-044 and D.06-01-024, dated December 15, 2005 and January 12, 2006, respectively.. Self-generation, as defined in D.01-03-073, refers to distributed generation technologies, such as microturbines, small gas turbines, wind turbines, photovoltaics, fuel cells, internal combustion engines, and combined heat and power (or cogeneration). Self-generation units, with a 1.5 MW maximum system size limit, are installed on the customer's side of the utility meter and provide electricity for all or a portion of that customer's electric load.

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The SGPMA shall apply to all customer classes, except for any classes that may be specifically excluded by the Commission. The SGPMA balance and current year's revenue requirement will be included in transportation rates annually.

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SoCalGas shall maintain the SGPMA by making entries at the end of each month as follows:

- a. A debit entry equal to the incremental O&M costs incurred by SoCalGas associated with this program, such as the costs of marketing, contract administration, regulatory reporting, program evaluation, and customer's incentives.
- b. A debit entry equal to the incremental capital costs incurred by SoCalGas associated with this program, such as depreciation, return on investment and related taxes.
- c. A credit entry related to one-twelfth of the authorized CSI revenue requirement (for 2006 only).
- d. A credit entry related to one-twelfth of the authorized SGIP revenue requirement.
- e. A credit entry equal to the revenues from amortization rates as authorized by the Commission.
- f. A debit entry equal to the interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I, J.

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A separate accounting of costs and benefits, by customer class, will be accomplished.

The total authorized program cost for SoCalGas is \$17 million annually over a four-year period beginning on March 27, 2001, and extending through December 31, 2004 as specified in Ordering Paragraph 1 of D. 01-03-073. Any unused funding can be carried over from one year to the next up to a maximum limit of \$68 million for the four-year period. SoCalGas may request approval to borrow against the annual budget of a subsequent year if program participation is larger than anticipated in the current year. The program was extended through December 31, 2007 in accordance with R.04-03-017. For 2006, an additional \$27 million is authorized for the CSI program.

Amounts in the SGPMA shall be amortized into SoCalGas' transportation rates on a uniform cent per therm basis annually. SoCalGas will file an advice letter to make this change in the October Biennial Cost Allocation Proceeding (BCAP) update filing each year with rates effective the following January 1st. Recovery of the undepreciated portion of the capital costs shall be authorized in the utility's next cost of service proceeding. Pursuant to D.05-12-044, SoCalGas may recover its share of the incremental amount authorized for the SGIP in the utility's next rate change following the effective date of D.05-12-044, subject to review of program costs at any time.

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3654-A
 DECISION NO. 06-01-024

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 SUBMITTED Oct 12, 2006
 EFFECTIVE Nov 11, 2006
 RESOLUTION NO. _____

PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
CALIFORNIA SOLAR INITIATIVE BALANCING ACCOUNT (CSIBA)

Sheet 1

The CSIBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of the CSIBA is to record the program costs related to 2006 solar program commitments, consistent with the California Solar Initiative (CSI) Program adopted in D.06-01-024 dated January 12, 2006 and subsequently modified pursuant to the approval of Senate Bill (SB) 1 on August 21, 2006.

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The CSIBA shall apply to all customer classes, except for any classes that may be specifically excluded by the Commission. SoCalGas shall maintain the CSIBA by making entries at the end of each month as follows:

- a. A debit entry equal to the incremental CSI program costs incurred by SoCalGas related to 2006 CSI Program commitments.
- b. A debit entry equal to the administrative costs, including program evaluation, associated with the 2006 CSI Program commitments.
- c. A credit entry equal to the revenues from amortization rates as authorized by the Commission.
- d. An entry equal to the interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I, J.

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A separate accounting of costs and benefits, by customer class, will be accomplished.

The balance in the CSIBA shall be amortized into SoCalGas' transportation rates on a uniform cent per therm basis annually in connection with SoCalGas' regulatory account balance update filing.

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(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3654-A
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ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
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(TO BE INSERTED BY UTILITY)
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(Continued)

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