



**J. Steve Rahon**  
Director  
Tariffs & Regulatory Accounts

8330 Century Park Ct.  
San Diego, CA 92123-1548  
Tel: 858.654.1773  
Fax 858.654.1788  
srahon@SempraUtilities.com

November 1, 2006

Advice No. 3676  
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Post-Test Year 2007 Rate Adjustment**

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) revisions to SoCalGas' revenue requirement and rates effective January 1, 2007.

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 2007, as authorized by D.05-03-023 including Appendix C, Settlement Agreement Regarding Phase 2 Base Margin 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 and 2006 base margins prior to calculating the base margin for 2007. The overall base margin change is an increase of \$57.750 million in SoCalGas' 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 requirement, and the related changes to its rates, at least three days prior to the January 1, 2007 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 adjustments 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 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 requirement, the prior years authorized base margin shall be recalibrated to reflect actual or latest estimated 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 2.0% and 3.0%, respectively for 2005, 2.5% and 3.5%, respectively for 2006, and 3.3% and 4.3%, respectively for 2007.

SoCalGas' 2004 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 2006 forecast were used. The CPI published for 2004 and 2005 were 1.888750 and 1.952667, respectively, resulting in a 2005 CPI increase of 3.384090% ( $1.952667 / 1.888750 - 1$ ). Since 3.384090% is above SoCalGas' approved maximum base margin escalation adjustment for 2005, the maximum of 3.0% will be used. SoCalGas' recalibrated 2005 authorized base margin (less exclusions) is therefore:

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

In recalibrating SoCalGas' 2006 base margin escalation, Global Insight's October 2006 forecast for 2006 CPI was 2.016476, resulting in a 2006 CPI increase of 3.267787% ( $2.016476 / 1.952667 - 1$ ). Since 3.267787% is between SoCalGas' approved minimum and maximum base margin escalation limits for 2006, the increase of 3.267787% will be used. SoCalGas' recalibrated 2006 authorized base margin (less exclusions) is therefore:

$$1.03267787 \times \$1,439,433,240 = \$1,486,470,854$$

Global Insight's October 2006 forecast for 2007 CPI was 2.060490, resulting in a predicted 2007 CPI increase of 2.182719% ( $2.060490 / 2.016476 - 1$ ). Since 2.182719% is below the approved minimum base margin escalation limit for 2007, the minimum of 3.3% will be used. Beginning with SoCalGas' recalibrated 2005 and 2006 base margins as computed above, SoCalGas' 2007 authorized base margin (less exclusions) is therefore:

$$1.033 \times \$1,486,470,854 = \$1,535,524,392 - \text{an increase of } \$57,749,696 \text{ over the previously authorized 2006 base margin of } \$1,477,774,696 \text{ (in Advice No. 3544 dated November 1, 2005).}$$

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 requirement established for the year is comprised of 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 calculation. SoCalGas' 2007 authorized base margin including PBR-indexing exclusions and other authorized adjustments is thus the sum of the following components:

\$1,535,524,392	PBR-indexed COS Base Margin
\$4,000,000	Base Margin Pension Costs
\$47,500,000	Base Margin PBOPS Costs
\$8,000,000	Base Margin RD&D Costs
<u>\$1,595,024,392</u>	Total COS Base Margin

**Revenue Requirement Impact by Class of Service**

<b><u>Class of Service</u></b>	<b><u>Applicable Rate Schedules</u></b>	<b><u>Net M\$ Increase / (Decrease)</u></b>
Core	GR, GS, GM, GML GO-SSA, GTO-SSA, GO-SSB GTO-SSB, GO-AC, GL GN-10, GT-10, GN-10L, GT-10L G-AC, GT-AC, G-EN, GT-EN G-NGV, GT-NGV	\$50,123
Noncore	GT-F, GT-I	5,235
Wholesale	GT-SD, GW-LB, GW-SD GW-SWG, GW-VRN	1,010
Storage	G-BSS, G-LTS, G-AUC, G-TBS	0
International		24
Unallocated Costs to NSBA		1,358
TOTAL		<u>\$57,750</u>

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

**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](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.

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](mailto:snewsom@SempraUtilities.com)

**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, 2007, 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 to this advice letter, which includes the service list in A.02-12-027 (COS).

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J. STEVE RAHON  
Director  
Tariffs and Regulatory Accounts

Attachments



**ATTACHMENT A**

**Advice No. 3676**

**(See Attached Service Lists)**

Aglet Consumer Alliance  
James Weil  
jweil@aglet.org

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

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

Ancillary Services Coalition  
Jo Maxwell  
jomaxwell@ascoalition.com

Ancillary Services Coalition  
Terry Rich  
TRich@ascoalition.com

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

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  
Pearlie Sabino  
pzs@cpuc.ca.gov

CPUC - DRA  
Galen Dunham  
gsd@cpuc.ca.gov

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

CPUC - DRA  
Jacqueline Greig  
jnm@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 Long Beach, Gas & Oil Dept.  
Chris Garner  
2400 East Spring Street  
Long Beach, CA 90806

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

City of Pasadena - Water and Power  
Dept.  
Robert Sherick  
rsherick@cityofpasadena.net

City of Riverside  
Joanne Snowden  
jsnowden@riversideca.gov

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

Commerce Energy  
Chet Parker  
CParker@commerceenergy.com

Commerce Energy  
Glenn Kinser  
gkinser@commerceenergy.com

Commerce Energy  
Gary Morrow  
GMorrow@commerceenergy.com

Commerce Energy  
Monica Hawkins  
MHawkins@commerceenergy.com

Commerce Energy  
Tony Cusati  
TCusati@commerceenergy.com

Commerce Energy  
Pat Darish  
pdarish@commerceenergy.com

Commerce Energy  
Lynelle Lund  
llund@commerceenergy.com

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

Crossborder Energy  
Tom Beach  
tomb@crossborderenergy.com

Culver City Utilities  
Heustace Lewis  
Heustace.Lewis@culvercity.org

DGS  
Henry Nanjo  
Henry.Nanjo@dgs.ca.gov

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  
Dan Douglass  
douglass@energyattorney.com

Douglass & Liddell  
Donald C. Liddell  
liddell@energyattorney.com

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

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

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

LS Power (took over Duke Energy)  
A Hartmann  
AHartmann@LSPower.com

Law Offices of Diane I. Fellman  
Diane Fellman  
diane\_fellman@fpl.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

Manatt Phelps Phillips  
Randy Keen  
rkeen@manatt.com



Manatt, Phelps & Phillips, LLP  
David Huard  
dhuard@manatt.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

PG&E Tariffs  
Pacific Gas and Electric  
PGETariffs@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

R. W. Beck, Inc.  
Catherine Elder  
celder@rwbeck.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., Rm 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.  
Kevin Cini  
Kevin.Cini@SCE.com

Southern California Edison Co.  
John Quinlan  
john.quinlan@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

Western Manufactured Housing  
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@mccarthyllaw.com

BERLINER LAW PLLC  
ROGER BERLINER  
roger@berlinerlawpllc.com

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

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

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

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

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

THE GREENLINING INSTITUTE  
CARRIE CAMARENA  
carriec@greenlining.org

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@gmsr.com

WESTERN MANUFACTURED HOUSING  
COMMUNITIES  
SHEILA DEY  
sheila@wma.org

CALIFORNIA PUBLIC UTILITIES  
COMMISSION  
LOS ANGELES DOCKET OFFICE  
LAdocket@cpuc.ca.gov

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

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

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

FPL ENERGY, LLC  
DIANE I. FELLMAN  
diane\_fellman@fpl.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

**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**  
 Eric Greene  
 eg1@cpuc.ca.gov

**ARNOLD & PORTER**  
 JAMES I. HAM  
 James\_Ham@aporter.com

**MORRISON & FOERSTER LLP**  
 PETER W. HANSCHEN  
 phansch@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  
 dhuard@manatt.com

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

**CATHOLIC HEALTHCARE WEST**  
 DAVID JONES  
 djones2@chw.edu

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

**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  
 dlaf@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

**DAVID MARCUS**  
 dmarcus2@sbcglobal.net

**SUTHERLAND, ASBILL & BRENNAN**  
 KEITH MCCREA  
 keith.mccrea@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

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

SAN FRANCISCO COMMUNITY POWER  
COOP  
STEVEN MOSS  
steven@moss.net

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

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

CALIFORNIA LEAGUE OF FOOD  
PROCESSORS  
ROB NEENAN  
rob@clfp.com

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  
kevinlsi@gmail.com

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

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

KERN RIVER GAS TRANSMISSION  
COMPANY  
RICHARD N. STAPLER, JR.  
richard.stapler@kernrivergas.com

SEMPRA ENERGY  
GLEN J. SULLIVAN  
gsullivan@sempra.com

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

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

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

CALIFORNIA DEPARTMENT OF  
WATER RESOURCE  
ANDREW ULMER  
aulmer@water.ca.gov

SEMPRA  
RONALD VAN DER LEEDEN  
rvanderleeden@semprautilities.com

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

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

MODESTO IRRIGATION DISTRICT  
PO BOX 4060  
MODESTO, CA 95352

**Attachment B**  
**Southern California Gas Company**  
**SUMMARY OF ANNUAL GAS TRANSPORTATION REVENUES**  
*Post Test Year Rate Adjustment 2007*

	A	B	At Present Rates		At Proposed Rates		Change (Increase / Decrease)			
			BCAP Volumes	Revenues	Average Rate	Revenues	Average Rate	Revenues	Rates	
		(Mth)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(%)	
<b><u>CORE PROCUREMENT</u></b>										
1	Residential	2,484,024	\$1,055,326	\$0.42485	\$1,097,300	\$0.44174	\$41,975	\$0.01690	4%	1
2	Large Master Meter	37,360	\$8,233	\$0.22037	\$8,569	\$0.22937	\$336	\$0.00900	4%	2
3	Commercial & Industrial	700,113	\$187,806	\$0.26825	\$194,310	\$0.27754	\$6,504	\$0.00929	3%	3
4	Gas A/C	1,060	\$119	\$0.11233	\$124	\$0.11695	\$5	\$0.00463	4%	4
5	Gas Engine	15,240	\$2,140	\$0.14040	\$1,982	\$0.13007	(\$157)	(\$0.01032)	-7%	5
6	<b>Total Core Procurement</b>	3,237,796	\$1,253,623	\$0.38718	\$1,302,285	\$0.40221	\$48,662	\$0.01503	4%	6
<b><u>CORE TRANSPORTATION</u></b>										
7	Residential	25,091	\$10,562	\$0.42095	\$10,986	\$0.43784	\$424	\$0.01690	4%	7
8	Large Master Meter	377	\$82	\$0.21647	\$85	\$0.22547	\$3	\$0.00900	4%	8
9	Commercial & Industrial	134,522	\$33,723	\$0.25069	\$34,763	\$0.25842	\$1,040	\$0.00773	3%	9
10	Gas A/C	140	\$16	\$0.11182	\$16	\$0.11644	\$1	\$0.00463	4%	10
11	Gas Engine	800	\$112	\$0.13989	\$104	\$0.12956	(\$8)	(\$0.01032)	-7%	11
12	<b>Total Core Transportation</b>	160,930	\$44,495	\$0.27648	\$45,954	\$0.28555	\$1,459	\$0.00907	3%	12
13	<b>TOTAL CORE</b>	3,398,727	\$1,298,118	\$0.38194	\$1,348,239	\$0.39669	\$50,122	\$0.01475	4%	13
<b><u>NONCORE</u></b>										
14	Commercial & Industrial	1,456,757	\$95,504	\$0.06556	\$98,238	\$0.06744	\$2,734	\$0.00188	3%	14
15	SoCalGas EG Stand-Alone	2,944,257	\$113,573	\$0.03857	\$116,075	\$0.03942	\$2,501	\$0.00085	2%	15
16	+ Sempra-Wide EG Adjustment	2,944,257	\$16,749	\$0.00569	\$16,749	\$0.00569	\$0	\$0.00000	0%	16
17	= Electric Generation Total	2,944,257	\$130,322	\$0.04426	\$132,824	\$0.04511	\$2,501	\$0.00085	2%	17
18	<b>Retail Noncore Total <sup>1</sup></b>	4,401,014	\$225,826	\$0.05131	\$231,062	\$0.05250	\$5,235	\$0.00119	2%	18
<b><u>WHOLESALE</u></b>										
19	Long Beach	77,821	\$2,888	\$0.03712	\$2,949	\$0.03789	\$61	\$0.00078	2%	19
20	SDG&E	1,445,680	\$45,235	\$0.03129	\$46,089	\$0.03188	\$854	\$0.00059	2%	20
21	Southwest Gas	91,672	\$3,214	\$0.03506	\$3,279	\$0.03576	\$64	\$0.00070	2%	21
22	City of Vernon	51,620	\$1,663	\$0.03222	\$1,695	\$0.03284	\$32	\$0.00062	2%	22
23	<b>Wholesale Total</b>	1,666,793	\$53,001	\$0.03180	\$54,011	\$0.03240	\$1,010	\$0.00061	2%	23
<b><u>INTERNATIONAL</u></b>										
24	Mexicali - DGN	36,419	\$1,243	\$0.03412	\$1,267	\$0.03479	\$24	\$0.00067	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	\$14,574	n/a	\$15,932	n/a	\$1,358	n/a	9%	26
27	<b>SYSTEM TOTALS <sup>1</sup></b>	<b>9,502,953</b>	<b>\$1,613,762</b>	<b>\$0.16982</b>	<b>\$1,671,511</b>	<b>\$0.17589</b>	<b>\$57,750</b>	<b>\$0.00608</b>	<b>4%</b>	<b>27</b>
28	<b>EOR Revenues</b>	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.