STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

February 28, 2008

Advice Letter 3817

Mr. Sid Newsom
Regulatory Tariff Administration
Southern California Gas Company – GT14D6
555 West Fifth Street
Los Angeles, CA 90013-4957

Subject: Revision to Gas Cost Incentive Mechanism (GCIM)

Dear Mr. Newsom:

Advice Letter 3817 is effective February 17, 2008.

Sincerely,

Sean H. Gallagher, Director
Energy Division

Southern California Gas Company®

A Sempra Energy® utility

Ken Deremer
Director
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January 18, 2008

Advice No. 3817
(U 904 G)

Public Utilities Commission of the State of California

Subject: Revision to Gas Cost Incentive Mechanism (GCIM)

In compliance with Ordering Paragraphs (OP) 4, 10, 12, 14, 15 and 35 of Decision (D.) 07-12-019, dated December 6, 2007, Southern California Gas Company (SoCalGas) hereby submits for filing revisions to its Preliminary Statement - Part VIII, GCIM, as shown on Attachment B.

Purpose

This filing modifies the existing GCIM consistent with the implementation of the changes to the natural gas operations and service offerings as adopted in D.07-12-019.

Background

On December 6, 2007, the Commission issued D.07-12-019 approving and denying, in part, SoCalGas and SDG&E's proposals to implement a range of revisions to the natural gas operations and service offerings of SoCalGas and SDG&E, related to core operations, unbundled storage, and provisions for expansion of storage capacities, among other things. In compliance with OP 35, SoCalGas is filing this advice letter to implement revisions to the GCIM associated with the implementation of changes in SoCalGas' operations and service offerings adopted in D.07-12-019. Separate advice letters were filed to implement the regulatory account changes associated with the implementation of the core portfolio combination (Advice No. 3804) and to establish the Noncore Storage Memorandum Account (Advice No. 3812) on December 21st and 31st, 2007, respectively. A separate Advice No. 3818, Establishment and Modification of Tariffs related to Natural Gas Operations and Service Offerings, will be filed on January 22, 2008 in compliance with D.07-12-019.

Gas Cost Incentive Mechanism

Pursuant to D.07-12-019, SoCalGas revises its Preliminary Statement - Part VIII, Gas Cost Incentive Mechanism, to incorporate the following changes:

Annual Storage Target: Pursuant to OP 4 of D.07-12-019, section C.7. has been modified to reflect the approved storage capacity for the combined portfolio of 79 Bcf as the November 1 storage target. The December 1 secondary target has also been modified accordingly.

California Energy Hub Revenues: Pursuant to OP 10 of D.07-12-019, the California Energy Hub operations will be transferred from Gas Acquisition to the System Operator. Consequently, the Preliminary Statement now provides that The California Energy Hub and related tariffs will no longer be utilized by the Utility Gas Procurement Department once the California Energy Hub operations are transferred to the System Operator.

Secondary Market Transactions: Section 4.8.2 of D.07-12-019 states that "we do not foreclose the opportunity for the core still to retain the flexibility to offer its own hub services." Therefore section C.6.e has been inserted to reflect the inclusion in GCIM of net revenues from secondary market transactions, utilizing core assets, such as parks and loans.

Winter Hedge Activities: Pursuant to OP 12 and footnote 54 of D.07-12-019, section B.5 has been added and section C.6.j has been modified to reflect the exclusion of gains and losses of winter hedging activities, including transaction costs, from GCIM, subject to reevaluation after the 2009-2010 winter hedge period and revision pending disposition of the generic rulemaking on gas utilities treatment of hedging under incentive mechanism.

Imbalance Charges: Pursuant to OP 14 of D.07-12-019, concurrent with being relieved of minimum flow requirement responsibility, the core will be subject to imbalance requirements and operating flow orders, with the same balancing tolerance as the noncore customers. Consistent with the proposed GCIM Preliminary Statement Part VIII filed with Application (A.) 06-08-026, revised section C.6.f states that imbalance charges incurred by the Utility Gas Procurement Department (Gas Acquisition) will not be included in actual gas costs for GCIM calculations. This section also provides that SoCalGas will provide imbalance information to the Commission as part of its monthly and annual GCIM reports.

BOFRMA Account: Pursuant to OP 15 of D.07-12-019, the responsibility for managing any minimum flow requirements for system reliability will be transferred from the Gas Acquisition Department to the System Operator concurrent with the core becoming subject to imbalance requirements and operating flow orders. Accordingly, section C.6.k. regarding the treatment of Blythe Operational Flow Requirement Memorandum Account (BOFRMA) in GCIM has been modified to indicate that entries to this account, except for interest and amortization, along with related GCIM adjustments, will cease once this responsibility is transferred.

Other Modifications: In section 4.2.2 of D.07-12-019, the Commission recognizes that "[W]hile the [portfolio] combination will not change the structure of GCIM, there may be certain changes in how GCIM is applied. For example, GCIM applied to the combined portfolio would likely include the AECO trading point in Canada". Changes to accommodate the portfolio combinations are reflected in sections C.3, C.4 and C.5. Other revisions have also been made to update the Preliminary Statement for current procedures, such as: 1) the deletion of language pertaining to the utilization of firm interstate capacity in section C.5. which has been superseded by capacity contract approval procedures as established in D.04-09-022; 2) the revision of storage target in section C.7. from +5/-5 Bcf to +5/-2 Bcf to reflect the approved Joint Recommendation of DRA, TURN and SoCalGas in D.06-10-029.

Protest

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 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

Copies of the protest should also be sent via e-mail to the attention of both Maria Salinas (mas@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
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 believes that this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. This filing is consistent with D.07-12-019 and therefore SoCalGas respectfully requests that this filing be approved on February 17, 2008, 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 the interested parties in A.06-08-026.

KEN DEREMER
Director
Tariffs and Regulatory Accounts

Attachments

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SOUTHERN CALIFORNIA GAS COMPANY (U 904-G)**

Utility type:	Contact Person: Sid Newsom
☐ ELC ☒ GAS	Phone #: (213) 244-2846
☐ PLC ☐ HEAT ☐ WATER	E-mail: snewsom@semprautilities.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas
PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 3817

Subject of AL: Revision to PS VIII - GCIM to Implement Omnibus D07-12-019

Keywords (choose from CPUC listing): Core, Procurement, Portfolio, Storage,

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☒ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D07-12-019

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL No

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: N/A

Does AL request confidential treatment? If so, provide explanation: No

Resolution Required? ☐ Yes ☒ No   Tier Designation: ☐ 1 ☒ 2 ☐ 3

Requested effective date: 2/17/08   No. of tariff sheets: 8

Estimated system annual revenue effect: (%): None

Estimated system average rate effect (%): None

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: Preliminary Statement, Part VIII and TOCs

Service affected and changes proposed[1]: N/A

Pending advice letters that revise the same tariff sheets: None

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.
San Francisco, CA 94102
mas@cpuc.ca.gov and jnj@cpuc.ca.gov

Southern California Gas Company
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[1] Discuss in AL if more space is needed.

ATTACHMENT A

Advice No. 3817

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3817

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 42772-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 1	Revised 42032-G
Revised 42773-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 2	Revised 35877-G
Revised 42774-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 3	Revised 37922-G Revised 35877-G
Revised 42775-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 4	Revised 36869-G
Revised 42776-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 5	Revised 36869-G Revised 36870-G
Revised 42777-G	PRELIMINARY STATEMENT, PART VIII, GAS COST INCENTIVE MECHANISM, Sheet 6	Revised 36870-G Original 35881-G
Revised 42778-G	TABLE OF CONTENTS	Revised 42761-G
Revised 42779-G	TABLE OF CONTENTS	Revised 42682-G*

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM

Sheet 1

A. GENERAL

The Gas Cost Incentive Mechanism (GCIM) replaces the Reasonableness Review as a means of reviewing the Utility Gas Procurement Department's (Gas Acquisition) natural gas purchasing activities for retail core (core) customers. The purpose of the GCIM is to provide market-based incentives to reduce the cost of gas to core customers and to provide appropriate objective standards against which to measure the Utility Gas Procurement Department's performance in gas procurement and transportation functions on behalf of core customers. T T

On an annual basis, the GCIM provides the Utility Gas Procurement Department with an incentive to achieve a cost of gas that is at or below the prevailing market price for gas, by establishing an annual benchmark budget. The actual gas costs incurred to meet the needs of core customers are measured against the annual benchmark budget. If the actual total gas cost is less than the annual benchmark budget, the cost savings is shared between ratepayers and shareholders based on a tiered formula with ratepayers receiving a progressively greater percentage of the GCIM gain over certain tolerances and within established sharing bands, subject to a cap on shareholders' benefit (see Section C.9). If the actual total gas cost is greater than the annual benchmark budget plus a specified tolerance, the excess cost penalty is split equally between shareholders and ratepayers. See Section C. for the detailed methodology used to calculate these components. T

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B. EFFECTIVE DATES

1. A three-year experimental GCIM was approved in D.94-03-076, effective April 1, 1994. The GCIM program was modified and extended for two years by D.97-06-061, effective April 1, 1997. The GCIM program extension remained in effect through March 31, 1999.

2. Pursuant to D.98-12-057, the GCIM is extended on an annual basis for 12-month cycles, beginning in Year 6, the period April 1, 1999 through March 31, 2000, unless the mechanism is modified or discontinued by further order of the Commission.

3. D.02-06-023 approved a Settlement Agreement sponsored by the Commission's Office of Ratepayer Advocates (now Division of Ratepayer Advocates or DRA), The Utility Reform Network (TURN) and SoCalGas, with amendments, which further modifies the GCIM and extended it for Year 7 (April 1, 2000 through March 31, 2001) and beyond, on an annual basis until further modified or terminated upon Commission Order. T

4. Pursuant to D.05-10-043, as modified by D.06-08-027 and D.07-06-027, all costs and benefits associated with SoCalGas' hedging activities during the 2005 through 2008 winter seasons (i.e., beginning November through March of the following year) shall flow directly to core customers. T

(Continued)

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM

(Continued)

B. EFFECTIVE DATES (Continued)

5. D.07-12-019 approved the consolidation of SoCalGas' and SDG&E's core procurement functions into one gas portfolio to be managed by SoCalGas (the Utility Gas Procurement Department) and subject to SoCalGas' GCIM. The decision also authorized the utility procurement department to engage in winter hedging activities outside of GCIM, subject to reevaluation after the 2009-2010 winter hedging period. Furthermore, this authorization is subject to revision pending disposition of the Commission's generic rulemaking to address the treatment of gas utilities' hedging under incentive mechanisms. N | | | | | N

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY

1. On an annual basis, the GCIM compares the actual cost of the Utility Gas Procurement Department's purchases to an annual benchmark budget. The annual benchmark budget is the sum of twelve monthly benchmark budget amounts. T

2. The Monthly Benchmark Budget is the sum of monthly benchmark gas commodity costs, monthly benchmark commodity transportation costs, and monthly benchmark transportation reservation charges.

3. Monthly benchmark gas commodity costs are calculated at the mainline for interstate purchases and the border for border purchases. The Monthly Benchmark Gas Commodity Cost is the product of the Mainline Gas Commodity Reference Price times the volumes purchased at the mainline plus the product of the Border Gas Commodity Reference Prices times the volumes purchased at the respective border locations.

   a. The Mainline Gas Commodity Reference Price consists of the weighted average of published indices from two gas industry publications for the mainline trading points for each production basin in which the Utility Gas Procurement Department procures its gas supplies. It equals the product of pipeline and basin weights applied to pipeline and basin specific indices reported in each of the publications. Each weight equals the ratio of the actual gas purchased from a specific pipeline/basin to the total gas purchased during the month by the Utility Gas Procurement Department at the mainline. Since the Utility Gas Procurement Department's purchases from the Anadarko basin are minimal, these volumes are included in the Utility Gas Procurement Department's Permian purchases for purposes of developing weighting factors. If one publication does not report an index value for a specific pipeline/basin combination for a given month, the Mainline Gas Commodity Reference Price will use the corresponding index value from the other publication. D T D D,T D,T T | T

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(Continued)

PRELIMINARY STATEMENT Sheet 3

PART VIII

GAS COST INCENTIVE MECHANISM

(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

b. The Border Gas Commodity Reference Prices are based on the simple average of two published indices. The Southern California Border Average indices will be used for border purchases, including purchases from California production, and purchases made at the California border (with the exception of volumes purchased and sold at non-SoCalGas receipt points). L L L,D L,D

The Border Gas Commodity Reference Price for these non-SoCalGas receipt points will be the simple average of published indices at each of these respective receipt points. Transactions at non-SoCalGas receipt points (e.g. PG&E-Topock, Mojave-Topock, Malin, etc.) will be tracked separately. L L L,T L,D

4. The Monthly Benchmark Commodity Transportation Costs are the sum of commodity firm and interruptible transportation charges incurred by the Utility Gas Procurement Department for each pipeline it holds capacity on. T,D N,D N,D

5. Monthly Benchmark Transportation Reservation Charges are the pipeline transportation reservation charges for total core capacity, including credits from revenues generated through the release of core interstate pipeline capacity. N N,D D

6. The Actual Total Annual Purchased Gas Costs are the sum of the twelve monthly total actual gas commodity costs plus the sum of the twelve monthly commodity transportation costs, plus the sum of the twelve monthly transportation reservation charges (as calculated in C.5 above). The following adjustments are made to the Actual Total Annual Purchased Gas Costs:

a. The actual cost of gas for California contracts are included in the actual purchased gas costs measured by the GCIM. The actual cost of California gas purchases are reduced by an amount equal to the Minimum Purchase Obligation (MPO) costs allocated to the noncore in rates. D D

b. Any revenues generated through the release of core interstate pipeline capacity are to be credited to the actual costs. D

D

(Continued)

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM
(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

6. Actual Total Annual Purchased Gas Costs (Continued)

c. Core gas sales will be used as a tool to reduce costs to core customers similar to other utilities and will be credited to actual gas commodity costs. T

d. California Energy Hub (Hub) net revenues are included as a credit to the GCIM actual costs. On a monthly basis, the Hub net revenues are cleared from a separate Hub account and allocated to the PGA. The California Energy Hub and related tariffs will no longer be utilized by the Utility Procurement Department once the California Energy Hub operations are transferred to the System Operator pursuant to D.07-12-019. T N | N

e. Net revenues (after operating expenses) from secondary market transactions utilizing core assets, such as parks and loans, including secondary market transactions occurring prior to the transfer of the California Energy Hub operations to the System Operator, are included as a credit to the GCIM actual costs. N | | N

f. Imbalance charges incurred by the Utility Gas Procurement Department and net revenues that the Utility Gas Procurement Department receives for providing noncore standby and buy-back service will not be included in actual gas costs for GCIM calculations. Imbalance reports will be provided to the Commission as part of the monthly and annual GCIM reports. N | | N

g. Commodity cost refunds credited to the PGA are credited to the actual cost of gas in the month during which the Utility Gas Procurement Department receives the refund. T T

h. Surcharge adjustments to the core cost of gas are treated as an additional cost in the month during which the Utility Gas Procurement Department is billed. If the surcharge occurs due to adjustments across more than one incentive mechanism cycle, the monthly actual cost of gas will be recalculated to reflect any GCIM impacts. T T

i. Any prospective refunds, surcharges, penalties, liabilities, or adjustments to purchases made during the term of the GCIM, specifically in conjunction with existing long-term contracts, shall be included as actual gas costs and are not subject to subsequent reasonableness review absent fraud or abuse. T

j. Gains and losses, including transaction costs, from all financial transactions used by the Utility Gas Procurement Department to hedge natural gas prices for any portion of the November through March period (Winter Hedges) are excluded from the GCIM. The cost of Winter Hedges, and all resulting gains and losses, accrue to customers through entries to the PGA. Gains and losses, including transaction costs, from all financial transactions other than Winter Hedges, are recorded in the PGA and included in GCIM actual commodity costs. Winter Hedges shall constitute the majority of the Utility Gas Procurement Department's hedging activities. D,N N | | | | N L

(Continued)

PRELIMINARY STATEMENT
PART VIII
GAS COST INCENTIVE MECHANISM

(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

k. Pursuant to Preliminary Statement, Part VI, Description of Regulatory Accounts - Memorandum, L,T
the Blythe Operational Flow Requirement Memorandum Account (BOFRMA) will record charges L
associated with the Utility Gas Procurement Department's purchasing and delivery of gas to L,T
sustain operational flows at Blythe. GCIM actual cost will be adjusted for charges or credits to L
the BOFRMA. Entries to this account, except for interest and amortization, along with related L,N
GCIM adjustments, will cease once the responsibility for managing minimum flow requirements N
for system reliability is transferred from the Utility Gas Procurement Department to the System |
Operator pursuant to D.07-12-019. N

7. The Annual Storage Inventory target on November 1 is 79 Bcf of the physical gas supply, with an L,T
accepted variance of +5/-2 Bcf. This target does not include any park or net loan positions. If the L,T,N
November 1 target is not attained, deliveries must be made to insure that a minimum of 69 Bcf of L,T
actual physical gas in the core's inventory is reached by December 1. The January, February and L
March minimum month-end targets (equivalent to peak day minimums necessary for serving the |
core) must be met. Any deviation from these storage targets should be explained in SoCalGas' |
annual GCIM filing. L

8. Tolerance

To determine GCIM rewards or penalties, tolerance bands above or below the benchmark budget are used. Tolerance bands are calculated as a percentage of the monthly gas commodity portion of the benchmark budget and is added to or subtracted from the benchmark budget as "upper tolerance band" or "lower tolerance band" (sharing bands), respectively. The specific percentages are approved by the CPUC and may be redetermined in subsequent CPUC decisions (See Section 9).

9. Calculation of Rewards and Penalties Under GCIM

a. On an annual basis, actual total purchased gas costs are compared to the annual benchmark budget to determine if a reward/savings or penalty applies.

b. If actual total purchased gas costs for the incentive year are less than the annual benchmark budget, the difference constitutes a savings incentive to be shared between ratepayers and shareholders as defined by the Sharing Bands as follows:

Sharing Band	Ratepayer	Shareholder
0.0% -1.00%	100%	0%
1.00% - 5.00%	75%	25%
5.00% & Above	90%	10%

The shareholder reward will be capped at 1.5% of the actual annual gas commodity costs.

L

(Continued)

C. GAS COST INCENTIVE MECHANISM (GCIM) METHODOLOGY (Continued)

9. Calculation of Rewards and Penalties Under GCIM (Continued)

c. If the actual total purchased gas costs are above the benchmark budget plus the upper tolerance band of 2%, then the difference constitutes a cost penalty, and the portion over this amount will be shared 50/50 between shareholders and ratepayers. If emergencies such as force majeure events (e.g. earthquakes and pipeline failures) cause the cost to be above benchmark, then ratepayers would absorb these incremental costs associated with that event. L | | | L

D. BALANCING ACCOUNT TREATMENT OF REWARDS AND PENALTIES L

Effective GCIM Year 9 (April 1, 2002 through March 31, 2003), SoCalGas will include the shareholder results of the GCIM from the most recent monthly report in the core monthly gas pricing advice letters submitted to the Energy Division, with copies to DRA. SoCalGas will maintain an interest bearing balancing account associated with shareholder rewards and penalties. On June 15 of each year, SoCalGas will file its annual GCIM application to the Commission describing, in detail, the results of the GCIM over the past year. DRA will conduct its annual audit and issue its monitoring and evaluation report by October 15 of each year. Any agreed upon adjustments in the shareholder incentive award or penalty for the past year will be reflected in SoCalGas' next core monthly gas pricing advice letter or as mutually agreed upon by SoCalGas and DRA. L L L,T L L L,T L L L,T

E. REPORTING REQUIREMENTS

1. The Utility Gas Procurement Department will submit monthly reports to the Commission, providing a summary of the procurement activities under GCIM and calculations of monthly and year-to-date benchmark budget and actual purchased gas costs. These reports are due 60 days after the end of each production month.

2. Any gas sales to affiliates of SoCalGas and SDG&E will be reported, be subject to affiliate transaction rules (and any other conditions that may be ultimately adopted by the Commission), and be subject to audit by the Commission staff. T

3. An annual report will be submitted to the Commission by June 15th, summarizing results of the twelve months' activities for the prior April 1 through March 31 period. This report addresses the Utility Gas Procurement Department's' operations and contains a calculation of the variance between the actual gas costs and the benchmark, the cost savings, and rewards or penalties.

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The following listed sheets contain all effective Schedules of Rates and Rules affecting service and information relating thereto in effect on the date indicated thereon.

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