

PUBLIC UTILITIES COMMISSION

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October 6, 2008

Advice Letter 3890

Ken Deremer
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8330 Century Park Court CP32C
San Diego, CA 92123-1548

**Subject: Establishment and Modification of the Regulatory Accounts and
Performance Based Regulation Mechanism in Compliance with
D.08-07-046**

Dear Mr. Deremer:

Advice Letter 3890 is effective January 1, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "Ken Lewis".

Kenneth Lewis, Acting Director
Energy Division



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August 11, 2008

Advice No. 3890
(U 904 G)

Public Utilities Commission of the State of California

Subject: Establishment and Modification of the Regulatory Accounts and Performance Based Regulation Mechanism in Compliance with Decision (D.) 08-07-046

Southern California Gas Company (SoCalGas) hereby submits for approval by the California Public Utilities Commission (Commission) revisions to its tariff schedules, applicable throughout its service territory, as shown on Attachment B.

Purpose

This filing revises Preliminary Statement, Part V, Description of Regulatory Accounts – Balancing, and establishes the Distribution Integrity Management Program Balancing Account (DIMPBA), Rewards and Penalties Balancing Account (RPBA), and Compressor Station Fuel and Power Balancing Account (CFPBA) and revises other existing balancing accounts as described below. In addition, this filing revises Preliminary Statement, Part VI, Description of Regulatory Accounts – Memorandum, for changes to existing memorandum accounts and Preliminary Statement, Part XI, Performance Based Regulation (PBR), excluding changes to the incentive mechanisms provided for by D.08-07-046 as these changes will be made through a separate advice letter filing. This filing also revises Rule No. 9, Discontinuance of Service, to reflect the Settlement Agreement with the Pest Control Operators of California (PCOC).

SoCalGas is also filing a separate filing (Advice No. 3891) to implement the revenue requirement authorized by this Commission order.

Background

On July 31, 2008, the Commission issued D.08-07-046 adopting, among other things, the Settlement Agreements regarding SoCalGas' revenue requirements for its Test Year (TY) 2008 General Rate Case (GRC) and post-test year ratemaking and incentive proposals. The decision also finds the effective date for the change in the revenue requirement is January 1, 2008, which resolves the effective date of the General Rate Case Revenue Requirements Memorandum Account (GRCRRMA) authorized by D.07-12-053.

Regulatory Account Mechanisms

Consistent with the D.08-07-046, the following regulatory account mechanisms are being established or modified:

Establishment of New Regulatory Accounts

- **Distribution Integrity Management Program Balancing Account (DIMPBA)** –The purpose of the DIMPBA is to record the difference between actual and authorized costs associated with SoCalGas' Distribution Integrity Management Program (DIMP) for the 2008-2011 General Rate Case (GRC) cycle.¹ Any annual over or under collections may be carried forward within the GRC cycle while any unspent funds remaining at the end of the cycle will be returned to customers in the next GRC.
- **Rewards and Penalties Balancing Account (RPBA)** –The purpose of the RPBA is to record the rewards or penalties associated with the PBR performance indicators allocated to ratepayers under SoCalGas' post-test year mechanism adopted by the Commission, including any incentive rewards associated with SoCalGas' energy efficiency programs. The RPBA will reflect rewards or penalties related to 2008 and onwards.
- **Company Use Fuel and Power Balancing Account (CFPBA)** –The purpose of the CFPBA is to record electricity expense used in the operation of SoCalGas' compressor stations.² The disposition of the account balance will be addressed in SoCalGas' next Biennial Cost Allocation Proceeding (BCAP).

Modified Regulatory Accounts

- **GRCRRMA** – The purpose of the GRCRRMA is to record the revenue shortfall or overcollection resulting from revenues received under current rates compared to the final 2008 gas base margin revenue requirement adopted in A.06-12-009. SoCalGas established the GRCRRMA pursuant to D.07-12-053 and AL 3811 but the effective date of the account was deferred pending the outcome of its GRC. Pursuant to D.08-07-046, SoCalGas revises its GRCRRMA to be effective on January 1, 2008. The disposition of the GRCRRMA balance will be addressed in SoCalGas' annual regulatory account update filing for rates effective January 1, 2009.
- **Late Payment Charge Memorandum Account (LPCMA)** – The LPCMA was established to record late payment charges assessed to non-residential customers until the establishment of SoCalGas' authorized base margin in its next GRC proceeding. The LPCMA was made effective with the implementation of late payment charges on January 1, 2006. Pursuant to D.08-07-046 late payment charges are reflected in adopted miscellaneous revenues; therefore, SoCalGas will cease recording late payment charges to the LPCMA effective January 1, 2008. SoCalGas proposes to eliminate this account in its 2009 BCAP.
- **Natural Gas Vehicle Account (NGVA)** – The NGVA balances actual natural gas vehicle (NGV) program costs with actual NGV program net revenues. Program costs include

¹ Pursuant to page 32 of the Joint Settlement, Exhibit No.: SCG-302.

² Pursuant to page 163 of the Joint Settlement, Exhibit No.: SCG-302.

“discretionary” program costs such as customer service, training, research and development and other “non-mandatory” program costs. In conjunction with the testimony of Phillip Baker, SoCalGas will no longer record discretionary costs to the NGVA effective January 1, 2008 as these costs are incorporated in 2008 base rates.³

- Research, Development, and Demonstration - NGV (RDDNGV) – The RDDNGV account records actual NGV-related research, development and demonstration (RD&D) program costs. In conjunction with the adopted settlement in D.08-07-046, NGV-related RD&D funding will be part of the overall base margin RD&D program and included with the RD&D funding in base rates.⁴ As such, effective January 1, 2008, NGV-related RD&D expenses will be recorded in the Research, Development, and Demonstration Expense Account (RDDEA) as described below. The disposition of any residual balance in the RDDNGV and the elimination of the account will be addressed in SoCalGas’ 2009 BCAP Application (A.) 08-02-001.
- RDDEA – The RDDEA records the difference between authorized RD&D funding recovered in base margin rates and actual costs associated with non-public purpose RD&D programs. Pursuant to D.08-07-046, NGV-related RD&D expenses, as mentioned above, will be recorded to the RDDEA effective January 1, 2008.
- Research Royalty Memorandum Account (RRMA) – The RRMA records actual revenues from ratepayer funded research programs in which ratepayers receive, pursuant to D.97-07-054, 100% of revenues from projects underway or completed prior to January 1, 1998 or 50% of revenues from projects that start on or after January 1, 1998. Pursuant to D.08-07-046, revenues will be split 60%/40% between ratepayers and shareholders, respectively, from projects that start on or after January 1, 2008.
- Interim Call Center Memorandum Account (ICCMA) – The purpose of the ICCMA was to record the incremental labor and indirect expenses incurred as a result of the CARE related program activities for the period beginning January 1, 2005 as directed by D.05-04-052. These costs reflect call center expenses that were not recovered through base rates authorized in SoCalGas’ Cost of Service Decision (D.04-12-015) but have been included in base rates in D.08-07-046. As such, SoCalGas will eliminate the ICCMA effective January 1, 2008 and transfer the balance to its Core Fixed Cost Account (CFCA) and Noncore Fixed Cost Account (NFCA) based on an EPMC methodology.⁵
- Pension Balancing Account (PBA) – The PBA records the difference between the forecasted and actual minimum contributions to the SoCalGas pension fund. Pursuant to the adopted settlement in D.08-07-046, SoCalGas is revising its tariffs to remove the 20% shareholder limitation effective January 1, 2008.⁶ In addition, for the period 2009 through the end of the GRC term, annual pension contributions will be no greater than the ERISA minimum required funding amount. If the ERISA minimum exceeds the DRA estimate of Pension expense (identified in Exhibit DRA-27 in SoCalGas’ GRC Application 06-12-010) in any year, then SoCalGas will file an advice letter containing the supporting calculation of the minimum ERISA contribution made.

³ Pursuant to page 28 of the direct testimony of Phillip Baker on Customer Services – Shared Services.

⁴ Pursuant to page 103-104 of the Joint Settlement, Exhibit No.: SCG-302.

⁵ Pursuant to page 168 of the Joint Settlement, Exhibit No.: SCG-302.

⁶ Pursuant to page 164-165 of the Joint Settlement, Exhibit No.: SCG-302.

- Post Retirement Benefits Other Than Pensions Balancing Account (PBOPBA) – SoCalGas is updating the PBOPBA to reflect the balancing of actual annual PBOP costs embedded in authorized rates and actual tax deductible contributions to the PBOP Trust.⁷

Performance Based Regulation

Consistent with D.08-07-046, the following post-test year mechanisms are being established or modified:

Post Test Year Revenue Requirement

The GRC covers a minimum of four years, TY 2008 plus Attrition Years (AY) 2009, 2010, and 2011. Annual revenue requirement changes, excluding FF&U, will be fixed dollar amounts as follows:

AY2009	-	\$52 million
AY2010	-	\$51 million
AY2011	-	\$53 million

Revenue requirement amounts subject to balancing account treatment (e.g., Pensions, PBOPs, etc.) will not be increased above TY2008 levels except for routine amortization of over or under collections or any post-test year incremental changes to the level of funding authorized by the Commission. In addition, there will be no true-up or after-the-fact modification to any attrition year revenue requirement increase. Other Commission-approved revenue requirement and rate base changes such as cost of capital are incremental to the fixed amounts above.

Sharing Mechanism

Pursuant to D.08-07-046, SoCalGas will not be subject to an earnings sharing mechanism for the GRC period.

Z Factor Mechanism

SoCalGas shall continue its Z Factor mechanism through 2011.

Performance Indicators

Performance indicators as described in the Customer Service and Safety Performance Indicators Section I. (now Section G.) of Preliminary Statement, Part XI, will not be updated by this filing. By letter dated August 5, 2008, SoCalGas filed an extension of time from 10 days to 40 days from the effective date of D.08-07-046 in order to file a separate advice letter to modify its performance indicators in compliance with OP 18.

Fumigation

Consistent with the Settlement Agreement with the PCOC, SoCalGas is modifying Rule No. 9, Discontinuance of Service, for changes in its shut-off procedures. These changes primarily

⁷ Pursuant to page 166-167 of the Joint Settlement, Exhibit No.: SCG-302.

relate to the scheduling of gas shut-off services and continued interaction with the PCOC on a regular basis to address and resolve its service issues.

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

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 (inj@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@SemptraUtilities.com

Effective Date

SoCalGas believes that this filing is subject to Energy Division disposition and should be classified as Tier 1 (effective pending disposition) pursuant to GO 96-B. Consistent with D.08-07-046, Ordering Paragraph 15, SoCalGas respectfully requests that this filing be approved on August 11, 2008, 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 the SoCalGas' TY 2008 GRC A.06-12-010.

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:

ELC GAS
 PLC HEAT WATER

Contact Person: Sid Newsom

Phone #: (213) 244-2846

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) #: 3890

Subject of AL: Establishment and Modification of the Regulatory Accounts and PBR Mechanism
In Compliance with D08-07-046

Keywords (choose from CPUC listing): Preliminary Statement, Compliance, GRC, PBR

AL filing type: Monthly Quarterly Annual One-Time Other _____

AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D08-07-046

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 AL¹: N/A

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

Resolution Required? Yes No

Tier Designation: 1 2 3

Requested effective date: August 11, 2008

No. of tariff sheets: 41

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, Parts V and VI; Rule 9 and TOCs

Service affected and changes proposed¹: N/A

Pending advice letters that revise the same tariff sheets: _____

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. 3890

(See Attached Service Lists)

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ATTACHMENT B
Advice No. 3890

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 43687-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, DESCRIPTION AND LISTING OF BALANCING ACCOUNTS, Sheet 1	Revised 42240-G
Revised 43688-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, NATURAL GAS VEHICLE ACCOUNT (NGVA), Sheet 1	Revised 40878-G
Revised 43689-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, PENSION BALANCING ACCOUNT (PBA), Sheet 1	Revised 40882-G
Revised 43690-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, PENSION BALANCING ACCOUNG (PBA), Sheet 2	Revised 40883-G
Revised 43691-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, POST- RETIREMENT BENEFITS OTHER THAN PENSIONS, BALANCING ACCOUNT (PBOPBA), Sheet 1	Revised 40884-G
Revised 43692-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, POST- RETIREMENT BENEFITS OTHER THAN PENSIONS, BALANCING ACCOUNT (PBOPBA), Sheet 2	Revised 40885-G
Original 43693-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, COMPRESSOR STATION FUEL AND POWER BALANCING ACCOUNT (CFPBA)	
Original 43694-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, DISTRIBUTION INTEGRITY MANAGEMENT PROGRAM, BALANCING ACCOUNT (DIMPBA)	
Original 43695-G	PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS, REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)	
Revised 43696-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, DESCRIPTION AND LISTING OF MEMORANDUM ACCOUNTS, Sheet 1	Revised 43307-G*
Revised 43697-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, RESEARCH DEVELOPMENT AND , DEMONSTRATION	Revised 40894-G

ATTACHMENT B
Advice No. 3890

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
	EXPENSE ACCOUNT (RDDEA), Sheet 1	
Revised 43698-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, RESEARCH ROYALTY MEMORANDUM ACCOUNT (RRMA), Sheet 1	Revised 40902-G
Revised 43699-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, NGV RD&D MEMORANDUM ACCOUNT (RDDNGV), Sheet 1	Revised 40903-G
Revised 43700-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, LATE PAYMENT CHARGE MEMORANDUM ACCOUNT (LPCMA), Sheet 1	Revised 40916-G
Revised 43701-G	PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS, GENERAL RATE CASE REVENUE REQUIREMENTS MEMORANDUM ACCOUNT, (GRCRRMA), Sheet 1	Original 42721-G*
Revised 43702-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 1	Revised 39000-G
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Revised 43704-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 3	Revised 39005-G*
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Revised 43710-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION,	Revised 39015-G

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Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 43711-G	Sheet 9 PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 10	Revised 39016-G
Original 43712-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 11	
Revised 43713-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 12	Revised 39018-G
Revised 43714-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 13	Revised 43145-G
Revised 43715-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 14	Revised 39020-G
Revised 43716-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 15	Revised 39021-G
Revised 43717-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 16	Revised 39022-G
Revised 43718-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 17	Revised 39023-G
Revised 43719-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 18	Revised 39024-G
Revised 43720-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 19	Revised 39025-G
Revised 43721-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 20	Revised 39026-G
Revised 43722-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 21	Revised 39027-G
Original 43723-G	Rule No. 09, DISCONTINUANCE OF SERVICE, Sheet 8	
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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
DESCRIPTION AND LISTING OF BALANCING ACCOUNTS

Sheet 1

A. GENERAL

Balancing accounts are those regulatory accounts where authorized expenses are compared with revenues from rates designed to recover those expenses. The resulting under or overcollection, plus interest calculated in the manner described in Preliminary Statement, Part I, is recorded on the Utility's financial statements as an asset or liability, which is owed from or due to the ratepayers. Balances in balancing accounts are to be amortized in rates.

B. LISTING OF BALANCING ACCOUNTS

- Purchased Gas Account (PGA)
- Core Fixed Cost Account (CFCA)
- Noncore Fixed Cost Account (NFCA)
- Enhanced Oil Recovery Account (EORA)
- Noncore Storage Balancing Account (NSBA)
- California Alternate Rates for Energy Account (CAREA)
- Brokerage Fee Account (BFA)
- Hazardous Substance Cost Recovery Account (HSCRA)
- Natural Gas Vehicle Account (NGVA)
- El Paso Turned-Back Capacity Balancing Account (EPTCBA)
- Gas Cost Rewards and Penalties Account (GCRPA)
- Pension Balancing Account (PBA)
- Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)
- Conservation Expense Account (CEA)
- Research Development and Demonstration Gas Surcharge Account (RDDGSA)
- Demand Side Management Balancing Account (DSMBA)
- Direct Assistance Program Balancing Account (DAPBA)
- California Solar Initiative Balancing Account (CSIBA)
- Integrated Transmission Balancing Account (ITBA)
- Compressor Station Fuel and Power Balancing Account (CFPBA)
- Distribution Integrity Management Program Balancing Account (DIMPBA)
- Rewards and Penalties Balancing Account (RPBA)

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
PENSION BALANCING ACCOUNT (PBA)

Sheet 1

The PBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the difference between the forecasted and actual minimum contributions to the Utility's pension fund. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), effective January 1, 2008, the PBA will continue for the four-year GRC cycle through December 31, 2011.

The authorized pension revenue requirement and the related actual pension expenses recorded in the PBA are adjusted for related pension costs capitalized in ratebase and inter-company pension costs (i.e., for shared services) billed to and charged from SoCalGas' affiliate companies. In addition, the PBA records an adjustment for the difference in pension costs embedded in authorized and actual depreciation along with the related return.

SoCalGas will maintain the PBA by making entries at the end of each month as follows:

O&M Component

- a. A debit/credit entry equal to the difference between:
 - 1. One-twelfth of the Utility's annual pension funding level currently embedded in rates, reduced by the component of authorized pension costs capitalized to utility ratebase and
 - 2. Actual pension expense, reduced by the component of pension costs capitalized to utility ratebase;

Depreciation/Return Component – Current Year

- b. Actual pension expense, reduced by the component of pension costs capitalized to utility ratebase;
 - 1. One-twelfth of the current year's revenue requirement embedded in authorized depreciation, including the return associated with the authorized pension costs capitalized to utility ratebase and
 - 2. The current month's actual pension costs embedded in recorded depreciation, including the return associated with the actual pension costs capitalized to utility ratebase;

Depreciation/Return Component – Prior Year(s) [i.e., beginning with the initial year of the cost of service or GRC period]

- c. A debit/credit entry equal to the difference between:

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
PENSION BALANCING ACCOUNG (PBA)

Sheet 2

(Continued)

Depreciation/Return Component – Prior Year(s) (Continued)

1. One-twelfth of the prior years' revenue requirement embedded in authorized depreciation, including the return associated with the unamortized balance of authorized pension costs capitalized to utility ratebase in prior years and
2. The corresponding pension costs embedded in recorded depreciation, including the return associated with the unamortized balance of actual pension costs capitalized to utility ratebase in prior years;

Other Adjustments

- d. A debit or credit entry for amortization of pension refund /recovery in rates;
- e. An entry equal to the interest on the average of the balance in the account during the month using the interest rate described in Preliminary Statement, Part I, J. herein.

For the period of 2009 through the end of the current GRC cycle, annual pension contributions will be no greater than the ERISA minimum required funding amount. If the ERISA minimum exceeds the DRA estimate of pension expense (as identified in Exhibit DRA-27 in SoCalGas' GRC application 06-12-010) in any year, SoCalGas will file an advice letter containing the support calculation of the minimum ERISA contribution made. Except for the balance authorized for refunding in SoCalGas' most recent GRC, disposition of any remaining or new balance recorded in the PBA will be recovered/refunded in connection with SoCalGas' next cost of service or GRC proceeding.

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS
BALANCING ACCOUNT (PBOPBA)

Sheet 1

The PBOPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the actual annual PBOP costs embedded in authorized rates with the actual tax-deductible contributions to the PBOP Trust. Pursuant to D-08-07-046, TY 2008 General Rate Case (GRC), effective January 1, 2008, the PBOPBA will continue for the 4-year GRC cycle through December 31, 2011.

The authorized PBOP revenue requirement and the related actual PBOP expenses recorded in the PBOPBA are adjusted for related PBOP costs capitalized in ratebase and inter-company PBOP costs (i.e., for shared services) billed to and charged from SoCalGas' affiliate companies. In addition, the PBOPBA records an adjustment for the difference in PBOP costs embedded in authorized and actual depreciation along with the related return.

Consistent with Decision 92-12-015 which initially adopted the PBOP regulatory mechanism, SoCalGas will maintain the PBOPBA by making entries at the end of each month as follows:

O&M Component

- a. A debit/credit entry equal to the difference between:
 - 1. One-twelfth of the Utility's annual PBOP funding level currently embedded in rates, reduced by the component of authorized PBOP costs capitalized to utility ratebase and
 - 2. Actual tax-deductible PBOP contributions to the PBOP Trust, reduced by the component of PBOP costs capitalized to utility ratebase;

Depreciation/Return Component – Current Year

- b. A debit/credit entry equal to the difference, prorated for the year, between:
 - 1. One-twelfth of the current year's revenue requirement embedded in authorized depreciation, including the return associated with the authorized PBOP costs capitalized to utility ratebase and
 - 2. The current month's actual PBOP costs embedded in recorded depreciation, including the return associated with the actual PBOP costs capitalized to utility ratebase;

Depreciation/Return Component – Prior Year(s) [i.e., beginning with the initial year of the cost of service or GRC period]

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
POST-RETIREMENT BENEFITS OTHER THAN PENSIONS
BALANCING ACCOUNT (PBOPBA)

Sheet 2

(Continued)

Depreciation/Return Component – Prior Year(s) (Continued)

- c. A debit/credit entry equal to the difference between:
 - 1. One-twelfth of the prior years’ revenue requirement embedded in authorized depreciation, including the return associated with the unamortized balance of authorized PBOP costs capitalized to utility ratebase in prior years and
 - 2. The corresponding PBOP costs embedded in recorded depreciation, including the return associated with the unamortized balance of actual PBOP costs capitalized to utility ratebase in prior years;

Other Adjustments

- d. A debit or credit entry for amortization of PBOP refund/recovery in rates; and
- e. An entry equal to the interest on the average of the balance in the account during the month using the interest rate described in Preliminary Statement, Part I, J. herein.

Except for the balance authorized to refund pursuant to the most recent GRC, disposition of any remaining or new balance recorded in the PBOPBA will be recovered/refunded in connection with SoCalGas’ next cost of service or GRC proceeding.

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
COMPRESSOR STATION FUEL AND POWER BALANCING ACCOUNT (CFPBA)

1. Purpose

The CFPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), effective January 1, 2008, the CFPBA will record actual costs for electricity used in the operation of SoCalGas' compressor stations.

2. Applicability

See Disposition section.

3. Rates

The balance in the CFPBA will be included in gas rates upon Commission approval.

4. Accounting Procedures

SoCalGas maintains this account by making monthly entries as follows:

- a) A debit entry equal to compressor station electricity expenses, and
- b) An entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

5. Disposition

The disposition of the account balance and the allocation methodology will be addressed in SoCalGas' next BCAP.

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
DISTRIBUTION INTEGRITY MANAGEMENT PROGRAM
BALANCING ACCOUNT (DIMPBA)

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1. Purpose

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The DIMPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), effective January 1, 2008, the DIMPBA will record the difference between actual and authorized costs associated with SoCalGas' Distribution Integrity Management Program (DIMP). The DIMPBA is effective for the GRC cycle of 2008 through 2011.

2. Applicability

See Disposition section.

3. Rates

The balance in the DIMPBA will be included in gas rates upon Commission approval.

4. Accounting Procedures

SoCalGas maintains this account by making monthly entries as follows:

- a) A debit entry to record actual O&M costs related to SoCalGas' DIMP,
- b) A credit entry equal to one-twelfth of the cost authorized in rates related to SoCalGas' DIMP, and
- c) An entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

5. Disposition

Any over- or under-collected balance at the end of each year within the GRC cycle will be carried over to the following year. Any unspent DIMP funds at the end of the current GRC cycle will be returned to customers in rates in SoCalGas' next GRC cycle.

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
REWARDS AND PENALTIES BALANCING ACCOUNT (RPBA)

1. Purpose

The RPBA is an interest bearing balancing account recorded on SoCalGas' financial statements. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), the RPBA will record the Utility's rewards and penalties associated with the performance indicators adopted in the GRC's post-test year (PTY) mechanism. In addition, the RPBA will record rewards and penalties based on incentive mechanisms associated with SoCalGas' energy efficiency programs.

2. Applicability

This account shall apply to gas customers.

3. Rates

The projected year-end RPBA balance will be applied to gas rates as described in item 5 below.

4. Accounting Procedures

SoCalGas maintains this account by making monthly entries as follows:

- a) A debit entry for rewards associated with performance indicators on the PTY mechanism as addressed in Preliminary Statement, Part XI, PBR,
- b) A debit entry for rewards based on the incentive mechanism associated with SoCalGas' energy efficiency programs,
- c) A credit entry for penalties associated with performance indicators on the PTY mechanism as addressed in Preliminary Statement, Part XI, PBR,
- d) A credit entry for penalties based on the incentive mechanism associated with SoCalGas' energy efficiency programs, and
- e) An entry equal to the interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

5. Disposition

In each annual October regulatory account balance update filing, SoCalGas will amortize the year-end overcollected or undercollected balance effective January 1 of the following year. The disposition of the RPBA balance will be allocated on an Equal Percent of Marginal Cost (EPMC) basis.

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS
DESCRIPTION AND LISTING OF MEMORANDUM ACCOUNTS

A. GENERAL

Memorandum accounts are special accounts authorized by the Commission for the purpose of tracking certain costs and revenues. Please refer to each individual memorandum account description for the specific accounting treatment applicable to each account.

B. LISTING OF MEMORANDUM ACCOUNTS

PCB Expense Account (PCBEA)
Research Development and Demonstration Expense Account (RDDEA)
Curtailed Violation Penalty Account (CVPA)
Economic Practicality Shortfall Memorandum Account (EPSMA)
Catastrophic Event Memorandum Account (CEMA)
Vernon Avoided Distribution Cost Memorandum Account (VADCMA)
Vernon Rate Savings Memorandum Account (VRSMA)
Vernon Negotiated Core Contract Memorandum Account (VNCCMA)
Research Royalty Memorandum Account (RRMA)
NGV Research Development & Demonstration Memorandum Account (RDDNGV)
Intervenor Award Memorandum Account (IAMA)
Z Factor Account (ZFA)
Wheeler Ridge Firm Access Charge Memorandum Account (WRFACMA)
Gas Industry Restructuring Memorandum Account (GIRMA)
Self-Generation Program Memorandum Account (SGPMA)
Baseline Memorandum Account (BMA)
Blythe Operational Flow Requirement Memorandum Account (BOFRMA)
Cost of Service Revenue Requirement Memorandum Account (COSRRMA)
FERC Settlement Proceeds Memorandum Account (FSPMA)
Late Payment Charge Memorandum Account (LPCMA)
San Diego Gas & Electric Storage Memorandum Account (SDGESMA)
Gain/Loss On Sale Memorandum Account (GLOSMA)
Affiliate Transfer Fee Account (ATFA)
Firm Access Rights Memorandum Account (FARMA)
Otay Mesa System Reliability Memorandum Account (OMSRMA)
General Rate Case Revenue Requirements Memorandum Account (GRCRRMA)
Noncore Storage Memorandum Account (NSMA)
G-PAL Memorandum Account (GPMA)
Long Beach Storage Memorandum Account (LBSMA)
Southwest Gas Storage Memorandum Account (SGSMA)

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
RESEARCH DEVELOPMENT AND
DEMONSTRATION EXPENSE ACCOUNT (RDDEA)

The RDDEA is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to track the difference between authorized costs in rates, and actual costs associated with non-public purpose research, development, and demonstration programs. D.97-07-054 (PBR) authorized SoCalGas to continue using this account through the five-year PBR period, December 31, 2002. Effective January 1, 2005 this account is to track the difference between the authorized costs in rates and actual costs associated with non-public interest research, development and demonstration programs. D.01-10-030 extended the account through December 31, 2003. D.04-12-015 on Phase I of SoCalGas' Cost of Service (COS) authorized SoCalGas to continue using this account through the four-year COS period ending December 31, 2007. Pursuant to D.08-07-046, TY 2008 General Rate Case (GRC), effective January 1, 2008, SoCalGas is authorized to continue using this account through the four-year GRC period ending December 31, 2011.

SoCalGas maintains this account by making monthly entries as follows: a) debit entries for actual research, development, and demonstration expenses; and for amortization of balances, if any, due to ratepayers from prior program cycles where actual expenses fell short of authorized levels; b) a credit entry for authorized costs being collected in rates; and c) an entry equal to interest on the average of the balance in this account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

At the end of the cost of service or general rate case period, SoCalGas will reconcile this account and adjust rates as needed. If there is a balance due to ratepayers, pursuant to Commission order, SoCalGas will return the balance plus interest to ratepayers via lower rates or will carry the balance forward to offset expenses in future proceedings. Since program spending is limited and over-expenditures may not be recovered from ratepayers, shareholders absorb the balance in the event actual expenses exceed authorized levels.

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
RESEARCH ROYALTY MEMORANDUM ACCOUNT (RRMA)

The RRMA is an interest bearing memorandum account recorded on SoCalGas' financial statements. D.93-12-043 (TY94 GRC) authorized SoCalGas to establish this account to track actual revenues from ratepayer-funded research programs. D.97-07-054 (PBR) added the following revenue sharing program: a) ratepayers get 100% of revenues from projects underway or completed prior to 1/1/98, and b) ratepayers and shareholders equally split the revenues from projects that start after 1/1/98. Pursuant to D.08-07-046, TY 2008 GRC, revenues associated with projects commencing on and after January 1, 2008 are subject to a revenue sharing mechanism which allocates 60% of revenues to ratepayers and the remaining 40% to shareholders.

SoCalGas maintains this account by making monthly entries as follows: a) debit entries for funds returned to ratepayers in rates, b) credit entries for ratepayer's portions of actual research royalties, licensing fees, and other revenues, and c) an entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

For each annual October regulatory account balance update filing, SoCalGas will reconcile this account and adjust rates as needed. If there is a balance due to ratepayers, SoCalGas will decrease rates to return the balance plus interest to ratepayers.

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PRELIMINARY STATEMENT - PART V - BALANCING ACCOUNTS
NATURAL GAS VEHICLE ACCOUNT (NGVA)

Sheet 1

The NGVA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance actual natural gas vehicle (NGV) program costs with actual NGV program net revenues. D.92-01-021 (NGV Pilot) established the NGVA, and D.95-11-035 (Low Emission Vehicles) authorized SoCalGas to continue using this account for the six-year NGV program period of December 21, 1995, through December 20, 2001. Resolution G-3322 authorized SoCalGas to continue to use this account through December 31, 2002. D.03-10-086 extended the NGVA through December 31, 2005 and authorized the funding levels for "discretionary" program costs such as customer service, training, research and development and other "non-mandatory" program costs. Pursuant to D.02-12-056, "mandatory" program costs such acquisition costs of alternative fuel use fleet vehicles and supporting infrastructure were to be reviewed in each utility's General Rate Case (GRC) or cost-of-service proceeding. Pursuant to SoCalGas' Phase I Cost of Service Decision 04-12-015, the 2004 base margin revenue requirement included recovery of NGV mandatory costs. As a result, the NGVA shall only record discretionary program costs effective January 1, 2004. Pursuant to D.08-07-046, TY 2008 GRC, the 2008 base margin revenue requirement includes funding to recover discretionary program costs, so effective January 1, 2008, the NGVA will no longer record actual discretionary program costs.

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In addition to the ratepayer-funded NGV program authorized by D.95-11-035, Resolution G-3191a authorized a throughput sharing mechanism for ratepayers and SoCalGas shareholders. In return for shareholder-funded NGV promotional expenses, shareholders get a portion of the revenue on throughput above a schedule proscribed in Resolution G-3191a. Pursuant to Resolution G-3380, in the interim period until NGV rates are reviewed in SoCalGas' next BCAP, the uncompressed rate that is charged to the NGV customer class effective January 1 shall reflect an allocated portion of the prior year's forecasted balance in the Core Fixed Cost Account (CFCA).

On a monthly basis, effective January 1, 2004, SoCalGas will maintain the NGVA by making the following entries:

- a. A debit entry equal to discretionary program support costs such as customer service, training, and other "non-mandatory" program costs;
- b. A credit entry equal to NGV revenues;
- c. A debit entry equal to the cost of gas, company use and unaccounted for gas costs, and electricity costs associated with making CNG, if any;
- d. A debit entry equal to the NGV incentive calculated under the throughput sharing mechanism adopted by the Commission;
- e. On an annual basis, a debit or credit entry equal to a portion of the Core Fixed Cost Account (CFCA) that is allocable to the NGV customer class pursuant to Resolution G-3380.
- f. An entry to amortize the forecasted balance in the account;

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
NGV RD&D MEMORANDUM ACCOUNT (RDDNGV)

The RDDNGV is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to track actual NGV-related research, development and demonstration (RD&D) program costs. D.93-12-043 (TY94 GRC) authorized SoCalGas to track NGV-related RD&D expenses separate from other RD&D costs; and D.95-11-035 (LEV) authorized SoCalGas to use this account for the six-year period December 21, 1995, through December 20, 2001. Resolution G-3322 authorized SoCalGas to continue the use of the account through December 31, 2002. Pursuant to D.08-07-046, TY 2008 General Rate Case, NGV-related RD&D funding are included in the base margin for the overall RD&D program which is recorded in SoCalGas' Research, Development, and Demonstration Expense Account. As a result, effective January 1, 2008, NGV-related RD&D expenses will no longer be recorded in the RDDNGV.

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SoCalGas maintains this account by making monthly entries as follows: a) a debit for actual NGV-related research, development, and demonstration expenses plus interest; and b) a credit for amortization of costs that are being collected in rates, if any.

For each BCAP filing, SoCalGas will reconcile this account and adjust rates as needed. If there is a balance due from ratepayers, pursuant to Commission order, SoCalGas will increase rates to recover the balance. However, since program spending in 2002 is limited to the amount authorized by Resolution G-3322 and over-expenditures may not be recovered from ratepayers, shareholders absorb the balance in the event actual expenses exceed authorized levels.

(TO BE INSERTED BY UTILITY)

ADVICE LETTER NO. 3890
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ISSUED BY

Lee Schavrien
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 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS
LATE PAYMENT CHARGE MEMORANDUM ACCOUNT (LPCMA)

Sheet 1

The LPCMA is an interest bearing memorandum account that is recorded on the Utility's financial statements. The purpose of this account is to record late payment charges assessed to non-residential customers until the establishment of SoCalGas' authorized base margin in the next General Rate Case (GRC) proceeding. The LPCMA will be effective upon implementation of late payment charges on January 1, 2006. Pursuant to D.08-07-046, TY 2008 GRC, late payment charges are included in the adopted miscellaneous revenue which reduces base margin, and as a result, the LPCMA will no longer record late payment charges beginning January 1, 2008.

Utility shall maintain the LPCMA by making entries at the end of each month as follows:

- a. A credit entry equal to the late payment charges assessed to non-residential customers.
- b. A debit entry equal to the amortization revenues of the LPCMA balance embedded in current rates.
- c. 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.

The disposition of the LPCMA shall occur in SoCalGas' annual regulatory account balance update filing or in SoCalGas' BCAP.

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PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
GENERAL RATE CASE REVENUE REQUIREMENTS MEMORANDUM ACCOUNT
(GRCRRMA)

The GRCRRMA is an interest bearing memorandum account that is recorded on the Utility's financial statements. Pursuant to CPUC Decision 07-12-053, the purpose of this account is to record the shortfall or overcollection resulting from the difference between the rates currently in effect and the final 2008 rates adopted by the Commission in a Phase 1 decision for Application (A.) 06-12-010. Pursuant to D.08-07-046, TY 2008 General Rate Case, the GRCRRMA is effective January 1, 2008.

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Utility shall maintain the GRCRRMA by making the following entries:

- a. A debit entry equal to the pro rata allocation of SoCalGas' annual base margin revenue requirement (net of Franchise Fees and Uncollectible expenses) adopted in A.06-12-010 for the period January 1, 2008 until the effective date of rates adopted in a Phase 1 decision for A.06-12-010. This entry will be recorded once the decision is approved.
- b. A credit entry equal to the recorded revenues (net of Franchise Fees and Uncollectible expenses) under SoCalGas' base margin rates for each month beginning January 1, 2008 until the effective date of rates adopted in a Phase 1 decision for A.06-12-010. This entry will be recorded once the decision is approved.
- c. On a monthly basis, 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.

The disposition of the GRCRRMA balance shall be addressed in SoCalGas' GRC proceeding (A.06-12-010) or in SoCalGas' next annual regulatory account update filing.

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PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

Sheet 1

A. OVERVIEW

Pursuant to Decision (D.) 08-07-046, Test Year (TY) 2008 General Rate Case (GRC), the Performance Based Regulation (PBR) Mechanism consists of 1) an authorized base margin effective January 1, 2008 and the related increase for each of the post TYs, 2) a revenue adjustment mechanism, 3) Z-Factor; 4) a cost of capital trigger mechanism, 5) performance indicators, and 6) ratemaking procedures.

- Authorized Base Margin – The GRC decision establishes an authorized base margin for TY 2008 and an increase for each of the post-test years for the GRC cycle through 2011.
- Revenue Adjustment Mechanisms – All base rate revenues shall be recoverable by SoCalGas through the operation of revenue adjustment mechanisms to ensure that the recovery of approved revenue requirements is not affected by variance in sales forecasts.
- Z-Factor – Z Factors are exogenous events, unforeseen at the implementation of PBR, largely uncontrollable by management, having a material and disproportionate impact on SoCalGas.
- Cost of Capital Trigger Mechanism - The cost of capital trigger mechanism provides for an adjustment to SoCalGas’ authorized ROR if interest rates change by more than plus/minus 150 basis points from the benchmark rate and the forecast for 12 months ahead interest rates is at least plus/minus 150 basis points from the benchmark interest rate.
- Performance Indicators – Performance rewards or penalties are measured based on the Utility’s performance in the categories of employee safety and service quality. The total reward or penalty for any year of the PBR mechanism, beginning in 2005, shall not exceed \$8.1 million.
- Ratemaking Procedures – The ratemaking procedures establish the requirements for filing the annual PBR performance report, the filing of an annual internal audit report, and the accounting for approved rewards and penalties.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 3

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(Continued)

E. Z FACTOR

1. Definition (Continued)

- a. Accounting rule changes promulgated by the Financial Accounting Standards Board (FASB), the Securities and Exchange Commission (SEC) or the California Public Utilities Commission (CPUC);
- b. Tax law changes by the federal government, the State Franchise Tax Board, Board of Equalization, or any local jurisdiction having taxing authority;
- c. Costs resulting from other mandated state, federal, or local governmental programs or from regional environmental programs;
- d. In the event that the Catastrophic Event Memorandum Account (CEMA) is subsequently eliminated, material cost impacts resulting from natural disasters; and
- e. Other events meeting the criteria set forth herein.

SoCalGas must promptly notify the Commission of all potential Z Factors in compliance with D.97-07-054. Notice to the Commission shall be by a letter addressed to the Executive Director. Copies of the letter shall be sent to the following at the Commission: the Director of the Energy Division, the Investigations, Monitoring and Compliance Branch Chief, Energy Division, and the Director of the ORA. The letter shall clearly identify the proposed Z Factor to be recorded in the Z Factor Memorandum Account, shall include a detailed description of the event and a forecast of the annual cost impact of such Z Factor. SoCalGas shall then be authorized to record, on a monthly basis, the associated cost in the Z Factor Memorandum Account.

2. Operation of the Z Factor Memorandum Account

SoCalGas shall maintain a separate Z Factor Memorandum Sub-Account for each identified Z Factor. Recorded costs are charged to each sub-account at the end of each month. Revenues authorized by the Commission to amortize the balance are credited to each sub-account at the end of each month. Interest shall accrue on a monthly basis by applying the interest rate, as set forth in Section J of Preliminary Statement Part I, to the average of the beginning and ending balance (either positive or negative) less a \$5,000,000 deductible amount which is applicable to each qualifying Z Factor event.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 4 T

(Continued)

E. Z FACTOR (Continued)

3. Measure of Adjustment

a. Z Factor Calculation

The impact of the Z Factor event is less the \$5,000,000 deductible. The impact of the Z Factor event above the \$5,000,000 deductible will be the Z Factor used in the Base Rate Indexing Mechanism. The precise calculation is shown in the following formula:

$$Z_s = ZC_s - \$5,000,000$$

Where:

Z_s = A particular Z Factor for subject year s
 ZC_s = Z Factor cost level in subject year s

b. Capital Related Z Factor Costs

The formula is identical for capital costs except that the result is multiplied by the Capital Service Price, where the Capital Service Price is defined as the margin requirement for capital related costs determined under traditional cost of service methodology divided by the associated capital costs. Such costs are: return on weighted average rate base (using the current CPUC authorized rate of return), taxes on that return, depreciation expense at the CPUC adopted system average rate, plus authorized franchise fees and uncollectible expense. The precise calculation is shown in the following formula:

$$Z_s = (ZC_s * SP_s) - \$5,000,000$$

Where:

Z_s = A particular Z Factor for subject year s
 ZC_s = Z Factor cost level in subject year s
 SP_s = Capital Service Price in subject year s

c. Subsequent Year Adjustment

In subsequent years the Z Factor will be modified as described in E.4 below.

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PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

(Continued)

E. Z FACTOR (Continued)

4. Operation of the \$5,000,000 Deductible Feature

To limit recoverable Z Factors to material events, the deductible feature of \$5,000,000 was authorized by the Commission in D.97-07-054 to operate as follows:

- a. The deductible is a one-time feature applicable to the first \$5,000,000 in costs for each Z Factor event. For example, if a qualified Z Factor increased costs by \$20,000,000 in each year 1, 2 and 3 above the base level, the deductible will apply in year 1. Thus, the compensable amounts will be \$15,000,000, \$20,000,000 and \$20,000,000 in years 1, 2 and 3, respectively.
- b. The deductible is cumulative for each Z Factor event and completes its application in the first year that the cumulative Z Factor costs exceed the deductible amount. For example, if a qualified Z Factor increased costs by \$4,000,000, \$4,000,000 and \$4,000,000 in years 1, 2 and 3 above the base level, the deductible will be fully applied during year 2. Thus, the compensable amounts will be \$0, \$3,000,000 (\$4,000,000 plus \$4,000,000 minus \$5,000,000) and \$4,000,000 in years 1, 2 and 3, respectively. As demonstrated above, once a Z Factor is created and the full deductible is applied, the Z Factor remains compensable in subsequent years even if the amount is less than the one-time deductible.
- c. The deductible is applicable to each separate Z Factor event. Thus, in the event of multiple Z Factors, the following table depicts the Z Factor amounts, application of the deductible, and the compensable amounts:

(\$ Millions)	Year		
	<u>1</u>	<u>2</u>	<u>3</u>
Z Factor (a)	\$8	\$3	\$3
Z Factor (b)	<u>6</u>	<u>6</u>	<u>4</u>
Sub-Total	14	9	7
Deductible (a)	(5)	-	-
Deductible (b)	<u>(5)</u>	<u>-</u>	<u>-</u>
Compensable Amount	\$4	\$9	\$7

As demonstrated above, the deductible is a one-time amount applicable to each individual Z Factor. Again, once the deductible level is exceeded in any year for an individual Z Factor, that Z Factor is fully compensable in subsequent years.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 7

(Continued)

G. CUSTOMER SERVICE AND SAFETY PERFORMANCE INDICATORS (Continued)

1. Customer Service Indicators (Continued)

c. Field Service Order Appointments Provided / Percent Made – measure of the frequency with which SoCalGas provides customers with service window appointments and the frequency with which SoCalGas meets those commitments.

d. Call Center Responsiveness – measure of how quickly SoCalGas responds to customer calls.

Reward / penalty mechanism – For the Phone / Office Contact, Field Visit, and Call Center Responsiveness, SoCalGas is authorized a specific target and deadband for which no reward or penalty will apply. For each of the three indicators, performance beyond the deadband triggers a reward or penalty up to a maximum amount. Refer to individual tables below for details.

Phone / Office Contact Satisfaction Table

Target..... 83.4%
 Deadband..... 84.4% – 82.4%
 Reward / Penalty Liveband..... +/- 5%
 Incentive Rate..... \$10,000 / 0.1
 Maximum Reward / Penalty.... \$500,000

Field Visit Satisfaction Table

Target..... 94.1%
 Deadband..... 95.1% – 93.1%
 Reward / Penalty Liveband..... +/- 5%
 Incentive Rate..... \$10,000 / 0.1
 Maximum Reward / Penalty..... \$500,000

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PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

Sheet 8

(Continued)

G. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued)

1. Customer Service Indicators (Continued)

Call Center Responsiveness Table

Target..... 80% within 60 seconds
 Deadband..... 82% – 78%
 Reward / Penalty Liveband..... +/- 5%
 Incentive Rate..... \$30,000 / 0.1
 Maximum Reward / Penalty... \$1,500,000

Field Service Order Appointments Provided / Percent Made

There are seven bands by which the Field Service Order Appointments Provided are assessed in terms of the Percentage of On-Time Arrivals (Percent Made). The maximum Reward or Penalty is +/- \$600,000 and are assessed in increments of \$12,000 per each 0.1% change in the Percent On-Time Arrivals (Percent Met) within each of the seven Percent Appointments Provided bands. There is only one deadband area which is found in the band > 35% - 40% for 99.01 – 100% On-Time Arrivals Met. The targets, deadbands, and livebands are as follows:

- 35% or Below: Target: 100%
 Deadband: none
 Liveband: Penalty only 95.01 – 100% met
- >35% - 40%: Target: 99.01%
 Deadband: 99.01 – 100%
 Liveband: Penalty 94.01 – 99% met
- >40% - 45%: Target: 99.01%
 Deadband: none
 Liveband: Penalty 94.01 – 99% met; Reward 99.01 – 100% met
- >45% - 50%: Target: 98.01%
 Deadband: none
 Liveband: Penalty 93.01 – 98% met; Reward 98.01 – 100% met
- >50% - 55%: Target: 97.01%
 Deadband: none
 Liveband: Penalty 92.01 – 97% met; Reward 97.01 – 100% met

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PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

Sheet 9

(Continued)

G. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued)

1. Customer Service Indicators (Continued)

- >55% - 60%: Target: 96.01%
 Deadband: none
 Liveband: Penalty 91.01 – 96% met; Reward 96.01 – 100% met
- >60%: Target: 95.01%
 Deadband: none
 Liveband: Penalty 90.01 – 95% met; Reward 95.01 – 100% met

2. Employee Safety Indicator

The Employee Safety performance indicator measures SoCalGas performance based on its OSHA rate, a metric established by the federal Occupational Safety Health Act (OSHA). The OSHA rate is the number of incidents per 200,000 hours worked.

Reward / penalty mechanism – The employee safety indicator establishes a deadband from 6.02 to 6.36 for which no reward or penalty will apply. Beyond the deadband, SoCalGas is authorized an incentive rate of \$25,000 per 0.01 change in the rate for a maximum reward or penalty of \$5,000,000. Refer to table below for details.

Employee Safety Table

Benchmark	6.19
Deadband.....	6.02 – 6.36
Reward Liveband.....	+/- 2.0
Incentive Rate.....	\$25,000 / .01
Maximum Reward / Penalty ...	\$5,000,000

SoCalGas shall also track reportable incidents in the following four categories: meter reading; customer field service; distribution, transmission & storage; and office. SoCalGas shall submit a report of this information in its next General Rate Case proceeding.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 10

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(Continued)

G. CUSTOMER SERVICES AND SAFETY PERFORMANCE INDICATORS (Continued)

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3. Customer Service – Monitor Only Indicators

SoCalGas' performance on the following performance indicators will be tracked to monitor the service quality levels. SoCalGas will submit quarterly data on these indicators on an annual basis, beginning in 2006 to include data for the year 2005.

- a. Level of busy signals.
- b. Estimated meter reads.
- c. Leak response time.
- d. Missed appointments.
- e. Problem resolved on first visit.
- f. Elapsed time.
- g. Percentage of abandoned calls.
- h. Shortest time to CSR.
- i. Complaints.

4. Service Guarantee Program

If SoCalGas is unable to meet an appointment commitment with a customer for services at the customer's premises when access is required, SoCalGas will credit \$50 to the customer's account. Appointments can be all day or they may be made within appointment windows (e.g., a.m. / p.m.). The credit does not apply if the customer is notified at least four hours before the end of the appointment period. For establishment of service (turn on orders), the customer will be credited with the applicable service establishment charge (\$25) rather than the \$50. The guarantee does not apply for the gas pilot light service or if the utility documents that the reason for the missed appointment was due to natural disaster, labor strike, or the service person was called off to work on an Emergency Order. Emergency Orders are excluded as a result of the utility's public service obligations and include the following events: 1) fire or explosions; 2) broken or blowing gas line; 3) high gas pressure; 4) emergency carbon monoxide; and 5) hazardous leaks.

When an individual customer requests a date for a permanent new service establishment, the utility will turn on new service on the date promised (prior to midnight) or credit the customer's account with the appropriate Service Establishment Charge instead of the \$50 stated above. The credit does not apply if at least 24 hours notice of a date change is given to the customer. Notice given on an answering machine or to another number designated by the customer is sufficient. For the guarantee to be valid, there must be: 1) open access to the facility and the meter panel or gas service; 2) all required inspections must be completed and approved; and 3) no threats or harm to the utility employees.

SoCalGas will implement the service guarantee by the end of the first quarter, 2006.

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PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

Sheet 13

(Continued)

I. CORE PRICING FLEXIBILITY (Continued)

2. Class Average Long Run Marginal Cost (LRMC) Floor Rates

- a. D.98-01-040, Finding of Fact No. 5, allows SoCalGas the option to discount core transportation rates down to a LRMC floor rate; however, SoCalGas may not discount the cost of gas. For this program, the LRMC floor rate includes the following components: customer related, medium-pressure distribution, high-pressure distribution, transmission, seasonal storage, load balancing, company use transmission, unaccounted for gas, and interstate pipeline demand charges. In addition to these components, the full transportation rate includes the following components: non-marginal costs in base margin, ITCS, PITCO/POPCO transition costs, core averaging costs, and other exclusion costs.
- b. The following table lists the full LRMC transportation rates authorized by D.97-04-082, and the class average LRMC floor rates authorized by D.98-01-040. LRMC Floor Rates were updated with new values established in D.00-04-060, D.01-12-018 and SoCalGas Advice No. 3846, effective April 1, 2008. Full Transportation Rates are updated with new values established in D.00-04-060, Resolution G-3303, D.01-12-018 and SoCalGas Advice No. 3846, effective April 1, 2008. The floor rates represent the lowest possible average annual rate by class under which SoCalGas can serve gas. These rates represent a starting point for the program and, pursuant to Commission order, may be modified in future rate proceedings.

<u>Class</u>	<u>Full Transportation Rate</u>	<u>LRMC Floor Rate</u>
Residential	45.6 cents/therm	23.3 cents/therm
G-10, 0 to 3 Mth	73.2 cents/therm	36.2 cents/therm
G-10, 3-50 Mth	27.0 cents/therm	10.8 cents/therm
G-10, 50-250 Mth	18.9 cents/therm	6.5 cents/therm
G-10, >250Mth	8.8 cents/therm	4.2 cents/therm
Gas A/C	13.1 cents/therm	5.7 cents/therm
Gas Engines	12.2 cents/therm	5.2 cents/therm

- c. Optional tariffs or negotiated rate contracts that would result in average annual rates below class average LRMC will be subject to Commission approval through the Expedited Application Docket (EAD) process.
- d. With prior Commission approval under the EAD process, SoCalGas may discount average annual rates to a floor of customer-specific LRMC that includes the full interstate pipeline reservation charges allocated to core customers (excluding ITCS).

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 14

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(Continued)

I. CORE PRICING FLEXIBILITY (Continued)

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3. Types of Customers and Contracts

Optional tariffs and negotiated rates are applicable to new or existing customers for the purpose of load growth or load retention.

a. New Customers

A new customer is defined as a new meter measuring volumes not previously served, or a reconnected meter measuring load that has been off the system for at least 12 months.

b. Existing Customers

In addition to customers currently connected, D.98-01-040 defines existing customers as those who have been off SoCalGas' system for less than 12 months.

1) Load Retention

Load retention applies to those existing customers who would use less natural gas if optional tariffs or negotiated rates were not available. In load retention situations, an affidavit (stating the amount of throughput that would be lost absent the load retention agreement) is required.

2) Load Gain

Load gain applies to those existing customers who intend to increase natural gas demand given favorable optional tariffs or negotiated rates.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 15

(Continued)

I. CORE PRICING FLEXIBILITY (Continued)

4. Temperature Sensitive Definition

- a. For the purposes of the Temperature Adjustment Mechanism (TAM), the following customers are defined as temperature sensitive: residential customers; all core commercial and industrial customers with an annual consumption of less than 3,000 therms; and individual core commercial and industrial customers who have a seasonal load factor that equals or exceeds the residential load factor of 2.3.
- b. The seasonal factor is defined as the ratio of winter (November through April) demand to summer (May through October) demand.
- c. The single family residential market's temperature adjustment factor will be used for all customers subject to the TAM.

5. CFCA Adjustment Mechanism

This mechanism is designed to protect core customers by calculating those revenues which represent base revenues that would have been credited to the CFCA absent any optional tariffs or negotiated rates.

- a. Unless otherwise noted, base revenues are calculated by multiplying base volumes times the Otherwise Applicable Tariff rate plus the customer charge, where base volumes are the amount of gas the customer would have used in the absence of the optional tariff or negotiated rate.
- b. When load being served under optional tariffs and negotiated rates is not separately metered, base volumes are established using the last 12 months recorded usage. In certain cases, base volumes are adjusted, as described in section I.6, for temperature variations.
- c. SoCalGas credits the CFCA with aggregate base revenues annually for all customers participating in the optional tariffs and negotiated rate program. This annual credit is calculated as the sum of the monthly base revenues.

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PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

Sheet 16

(Continued)

I. CORE PRICING FLEXIBILITY (Continued)

5. CFCA Adjustment Mechanism (Continued)

d. CFCA Credits

1) New Customers

For a new customer who provides an affidavit stating they would not have become a customer absent the discounted rate, base volume equals zero, and there is no credit to the CFCA. For a new customer who does not provide an affidavit, the base volume equals the actual volume, and the CFCA credit is equal to 100% of the expected revenue under the Otherwise Applicable Tariff [i.e., 100% *(total metered actual volumes * Otherwise Applicable Tariff rate + customer charge)].

2) Existing Customers - Load Retention

The CFCA credit is equal to 95 % of actual revenue [i.e., 95% * (total metered actual volumes * optional tariff rate + customer charge)]; the remaining 5% of actual revenues goes to SoCalGas shareholders.

3) Existing Customers - Load Gain

a) Not Temperature Sensitive

Since customers with an annual load of less than 3,000 therms per year are treated as temperature sensitive, this category applies only to core commercial and industrial customers who use more than 3,000 therms in the base year, and have a seasonal factor less than 2.3. For these customers, base volumes equal the volume for the 12 months preceding the customer's participation in the optional tariff program.

b) Temperature Sensitive

For customers to whom the TAM applies, SoCalGas will use temperature-adjusted base volumes, as described in section I.6.

e. In the event proposed optional tariffs present special circumstances that may cause the CFCA adjustment mechanism to be clearly inappropriate or inaccurate, SoCalGas will propose, by advice letter filing, an alternative CFCA adjustment mechanism. Under such special circumstances, other parties may also propose alternate CFCA adjustment mechanisms.

(Continued)

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I. CORE PRICING FLEXIBILITY (Continued)

6. Temperature Adjustment Mechanism (TAM)

The purpose of the TAM is to calculate temperature-adjusted base volumes that isolate the effect of weather changes from the effect of flexible pricing. The temperature-adjusted base volumes for a given month are calculated by multiplying base volumes times the quantity (1 + NF); where NF stands for normalization factor which is calculated as follows:

$$NF = [0.202*(CDD - BDD)]/[(0.917 * Billdays) + (0.202 * BDD)]$$

Where,

- BDD = number of degree days for the base month cycle.
- CDD = number of degree days for the current year month cycle.
- 0.917 = daily non-temperature sensitive demand for single family residential segment.
- Billdays = number of billing days in the base period month.
- 0.202 = temperature adjustment coefficient for single family residential segment.

7. Effective Dates

- a. Optional tariffs will be effective upon 20 days after filing unless protested on the basis that the price floor is below class average LRMC; parties may protest such filings on any other basis as well.
- b. Unless otherwise specified in the tariff, SoCalGas may terminate optional rate schedules upon 60 days notice to customers and the Commission.

8. Term Of Contracts

- a. Through December 31, 1999, SoCalGas will not enter into any load retention contracts with a term of more than seven years. After December 31, 1999, SoCalGas will not enter into any load retention contract with a term of five or more years.
- b. As provided by D.97-07-054, contracts with a term of five years or longer will be filed for Commission approval under the EAD process.
- c. Negotiated contracts with terms of less than five years will be available for inspection at SoCalGas' headquarters, and will be submitted to the Commission's Energy Division for informational purposes.
- d. Once a load retention contract is in place for a particular load, the contract cannot be extended or renewed for a period longer than the maximum term permissible at the time the contract was executed.

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J. BIENNIAL COST ALLOCATION PROCEEDING (BCAP)

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1. The BCAP is the proceeding by which the Commission authorizes the level and allocation of SoCalGas' revenue requirement including regulatory account balances among customer classes for those items not included in the PBR Mechanism. SoCalGas' BCAP application will be filed every other year pursuant to D.94-07-064 (Global Settlement). SoCalGas filed its 1999 BCAP application in October of 1998. Pursuant to D.00-04-060, the 1999 BCAP rates are effective June 1, 2000 and continue in effect through December 31, 2002.
2. In non-BCAP years, SoCalGas will file an advice letter on or before October 15 to update the regulatory account amortization components of rates.
3. Noncore Competitive Load Growth Opportunities - Revenue Treatment

a. Overview

- 1) D.00-04-060 (Finding of Fact Number 9.q.) authorizes SoCalGas, at its option, to exclude from future cost allocations the expanded load that results from two situations:
 - a) New negotiated rate contracts that are part of a California Red Team economic development effort.
 - b) Contracts where Rule 38 shareholder funding has been used.

Under this arrangement, the volumes and revenues from these situations will not be included in determining noncore commercial and industrial revenue requirements.

- 2) The total volume that can qualify for treatment under this program is capped at 5% of the most recently adopted volume adopted for noncore commercial and industrial throughput in the most recent cost allocation proceeding.
- 3) Customers with contracts qualifying for this treatment are still eligible for service under their otherwise applicable tariff rate schedule.

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J. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued)

3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

a. Overview (continued)

- 4) To ensure that ratepayers are isolated from any risk of revenue shortfall that may result from SoCalGas excluding these noncore volumes from other noncore volumes, SoCalGas has instituted a Noncore Fixed Cost Account (NFCA) adjustment mechanism. This mechanism ensures that the NFCA records the revenues equal to those expected absent any special treatment under this program.
- 5) SoCalGas will submit documentation on the results of its competitive Load Growth revenue program activity in its annual PBR Report filing.
- 6) Contracts qualifying under this program are subject to change by the Commission as authorized by General Order 96-B, Industry Rule 7.1.

b. Contract Terms

- 1) Contract terms will be as negotiated between SoCalGas and the customer. Negotiated rates cannot be less than adopted short run marginal costs.
- 2) Contracts involving Rule 38 incentives will be assumed to run for five years, unless stated otherwise in the Contract. Contracts involving California Red Team will be as negotiated. If no term is set, the contract will be assumed to run for five years.
- 3) SoCalGas may, at its option, file an application with the Commission requesting that a contract receive treatment under this program for a period beyond five years.

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J. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued)

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3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

c. Customers

- 1) Any load associated with a noncore commercial and industrial customer is eligible under this program.
- 2) Contracts not qualifying for this regulatory treatment are:
 - a) An existing customer that could economically connect to a bypass pipeline.
 - b) A new customer (no recorded usage in the previous 12 months) in close proximity to a bypass pipeline.
 - c) A customer who previously received discounts to prevent fuel switching to a petroleum distillate fuel.
- 3) SoCalGas shall determine which contracts to include in this program, subject to review by the Commission.
- 4) A new customer will have a baseload volume of zero.
- 5) If new equipment is installed at a customer site under a contract qualifying for this program, and the equipment is separately metered, then only the metered volumes and revenues will receive treatment under this program.
- 6) If the new load is not separately metered, then base load volumes will be calculated as the average annual volume over the previous 24 months. If there are unusual characteristics that would cause the customer's 24 month history to be unrepresentative of average annual expected throughput, SoCalGas will select a different period of time that is more representative.

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J. BIENNIAL COST ALLOCATION PROCEEDING (BCAP) (Continued)

3. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

d) Regulatory Requirements

- 1) At the end of every calendar year, SoCalGas shall file with the Commission a confidential report showing a summary of activity under this program. The report will show the number of qualifying contracts, qualifying volumes, revenues received for qualifying volumes, and amounts credited to ratepayers for baseload volumes.
- 2) Customers must sign an affidavit attesting that the contract structure (in case of Red Team contracts) or the incentives (in case of Rule 38) were a material factor in the customer's decision to participate.
- 3) SoCalGas shall track all volumes that qualify under this program. These volumes will be excluded from forecasts adopted for cost allocation purposes for a period of five years after the start of each contract.
- 4) Revenues from customers and contracts qualifying under this are separated into two components:
 - a) Baseload revenues, calculated as the applicable baseload volumes times the otherwise applicable tariff.
 - b) Load growth related revenues, calculated as total revenues received from the customer minus baseload revenues.

Base load revenues will be credited to the Noncore Fixed Cost Account. Load Growth Related Revenues will be credited to the shareholder.

- 5) SoCalGas will track any contract specific costs incurred to support volumes qualifying under this program. Any costs incurred for separate metering, service lines, regulators, main extensions, etc. to serve specific locations that qualify under this program would be tracked. As long as the contract volumes are exempt from inclusion in cost allocation proceedings, these costs will not be included in the authorized utility revenue requirement.

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