STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, *Governor*

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

November 7, 2008

**Advice Letter 3900**

Ken Deremer
Director
Tariffs & Regulatory Accounts
8330 Century Park Court CP32C
San Diego, CA 92123-1548

Subject: **Modification of the Performance Incentive Mechanisms Pursuant to Decision (D.) 08-07-046**

Dear Mr. Deremer:

Advice Letter 3900 is effective September 8, 2008.

Sincerely,

Kenneth Lewis, Acting Director
Energy Division

Southern California Gas Company

A Sempra Energy utility

Ken Deremer
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Tariffs & Regulatory Accounts

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September 8, 2008

Advice No. 3900
(U 904 G)

Public Utilities Commission of the State of California

**Subject: Modification of the Performance Incentive Mechanisms Pursuant to 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 XI, Performance Based Regulation (PBR) for changes to the performance incentive mechanisms provided for by D.08-07-046, as modified in SoCalGas' acceptance letter to the Executive Director of the Commission on August 29, 2008.

## 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. On August 29, 2008, in compliance with Paragraph (OP) 16 of D.8-07-046, SoCalGas and San Diego Gas & Electric Company (SDG&E) jointly filed a letter with the Commission to affirmatively accept or decline each adopted incentive mechanism for the duration of the 2008 GRC cycle.

## Performance Incentive Mechanisms

As indicated in the letter described above, SoCalGas respectively declined the adopted incentive mechanisms for Customer Satisfaction and accepted the adopted incentive mechanism for Employee Safety. Consistent with SoCalGas' notification of the acceptance/rejection of the adopted incentive mechanisms, SoCalGas is modifying its Customer Service and Safety Performance Indicator Section of Preliminary Statement, Part XI, Performance Based Regulation as shown in Attachment B. These changes are based upon the revised PBR tariff filed in SoCalGas Advice No. 3890, in addition to the revised table in PBR Section I.2.b. as filed in SoCalGas Advice No. 3891, both of which were filed on August 11, 2008 as Tier 1 advice letters (effective pending staff approval).

**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 (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 1 (effective pending staff approval) pursuant to GO 96-B. Consistent with D.08-07-046, Ordering Paragraph 18, as modified by the Commission's approval of SoCalGas' letter dated August 5, 2008 requesting an extension of time from 10 days to 40 days from the effective date of D.08-07-046 for filing this separate advice letter to modify its performance indicators described herein, SoCalGas respectfully requests that this filing be approved on September 8, 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:<br>☐ ELC ☒ GAS<br>☐ PLC ☐ HEAT ☐ WATER | Contact Person: Sid Newsom<br>Phone #: (213) 244-2846<br>E-mail: snewsom@semprautilities.com |
| EXPLANATION OF UTILITY TYPE<br>ELC = Electric GAS = Gas<br>PLC = Pipeline HEAT = Heat WATER = Water | (Date Filed/ Received Stamp by CPUC) |

Advice Letter (AL) #: 3900

Subject of AL: Modification of the 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 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: September 8, 2008 No. of tariff sheets: 17

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 XI and TOCs

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

Pending advice letters that revise the same tariff sheets: 3890, 3891 and 3895

**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** | **Southern California Gas Company** |
| **Attention: Tariff Unit** | **Attention: Sid Newsom** |
| **505 Van Ness Ave.** | **555 West Fifth Street, GT14D6** |
| **San Francisco, CA 94102** | **Los Angeles, CA 90013-1011** |
| **mas@cpuc.ca.gov and jnj@cpuc.ca.gov** | **snewsom@semprautilities.com** |

[1] Discuss in AL if more space is needed.

**ATTACHMENT A**

**Advice No. 3900**

**(See Attached Service Lists)**

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ATTACHMENT B
Advice No. 3900

| Cal. P.U.C. Sheet No. | Title of Sheet | Cancelling Cal. P.U.C. Sheet No. |
|---|---|---|
| Revised 43901-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 1 | Revised 43702-G |
| Revised 43902-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 2 | Revised 43703-G |
| Revised 43903-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 6 | Revised 43707-G, 43708-G<br>Revised 43709-G, 43710-G |
| Revised 43904-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 7 | Revised 43710-G<br>Revised 43711-G |
| Revised 43905-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 8 | Original 43712-G |
| Revised 43906-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 9 | Revised 43713-G |
| Revised 43907-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 10 | Revised 43714-G<br>Revised 43741-G |
| Revised 43908-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 11 | Revised 43715-G |
| Revised 43909-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 12 | Revised 43716-G |
| Revised 43910-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 13 | Revised 43717-G |
| Revised 43911-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 14 | Revised 43718-G |
| Revised 43912-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 15 | Revised 43719-G |
| Revised 43913-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 16 | Revised 43720-G |
| Revised 43914-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 17 | Revised 43721-G |
| Revised 43915-G | PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 18 | Revised 43722-G |
| Revised 43916-G | TABLE OF CONTENTS | Revised 43877-G |
| Revised 43917-G | TABLE OF CONTENTS | Revised 43727-G |

PRELIMINARY STATEMENT

PART XI

PERFORMANCE BASED REGULATION



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 area of employee safety. The total reward or penalty for any year of the PBR mechanism, effective beginning January 1, 2008 through December 31, 2011, shall not exceed $3.0 million. T,D T T
- 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.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)



B. EFFECTIVE DATE/DURATION

The PBR mechanism shall be effective January 1, 2008 through the end of 2011. Pursuant to D.08-07-046, the performance incentive shall be effective from 2008 onwards until modified or terminated by further action of the Commission. SoCalGas shall file a Test Year 2012 general rate case application. T T,D

C. AUTHORIZED BASE MARGIN

The 2008 authorized base margin for SoCalGas is $1,610,510,000. For the attrition years of 2009-2011 the authorized base margin revenue requirement will increase by a fixed amount each year. The attrition year amounts, excluding FF&U, are:

$52,000,000 in 2009,
$51,000,000 in 2010, and
$53,000,000 in 2011.

There will be no true-up or after-the-fact modification to any attrition year revenue requirement increase. Revenue requirement and rate base changes outside the scope of D.08-07-046 (e.g. cost of capital, Catastrophic Event Memorandum Account, etc) are incremental to the fixed attrition amounts. The attrition adjustment will be incorporated in rates in connection with SoCalGas' consolidated rate update filing for rates effective January 1 of the following year. N N

D. REVENUE ADJUSTMENT MECHANISM

On a monthly basis, actual base margin revenues are recorded to the Core Fixed Cost Account (CFCA), Enhanced Oil Recovery Account (EORA), Integrated Transmission Balancing Account (ITBA), and the Noncore Fixed Cost Account (NFCA) and balanced against the monthly portion of the authorized base margin revenue requirement. The CFCA, NFCA, ITBA, and EORA balance the costs and revenues associated with serving the core, noncore, and Enhanced Oil Recovery customer classes as is further described in Preliminary Statement, Part V, Regulatory Accounts – Balancing.

E. Z FACTOR

1. Definition

Z Factors are exogenous events, unforeseen at the implementation of PBR, largely uncontrollable by management, having a material and disproportionate impact on SoCalGas as described below. Additionally, Z factors include costs which are a normal part of doing business, the costs and event are not reflected in the rate update mechanism, and the cost impact must be measurable and incurred reasonably. Potential Z Factors shall include, but are not limited to the items set forth below:

(Continued)

PRELIMINARY STATEMENT Sheet 6
PART XI
PERFORMANCE BASED REGULATION
(Continued)

F. COST OF CAPITAL TRIGGER MECHANISM

SoCalGas' authorized Rate of Return would be adjusted if (1) actual interest rates (defined as the 12-month trailing average yield on 30 year Treasury Bond) change by more than ±150 basis points (1.5%) from the benchmark rate (5.38%) as updated in SoCalGas MICAM adjustment filing (Advice Letter 3199-A) and (2) the then-current Global Insight forecast for 12 months ahead interest rates is at least ±150 basis points from the benchmark interest rate. If the threshold is triggered there will be an automatic adjustment of rates according to the pre-established formula, which is the "MICAM" mechanism for rate adjustment that was adopted for SDG&E in D.96-06-055.

When an automatic adjustment is triggered, the costs of capital components would be updated and a new rate of return computed as follows:

a. The return on equity would be adjusted by one-half the change in 30-year Treasury Bond rates that triggered the adjustment.

b. The costs of long-term debt and preferred stock would be updated to reflect actual embedded costs. Interest rate forecasts would not be used.

c. For the calendar years 2004 through 2007, SoCalGas' ratemaking capital structure (i.e., common equity, preferred stock, and debt ratios) would be frozen at the 1997 level adopted in D.96-11-060.

G. PERFORMANCE INDICATOR D

The total amount of the safety performance indicator reward or penalty in any year of the PBR mechanism, beginning in 2008, shall not exceed $3.0 million. N T
D

1. Employee Safety Indicator L,T

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. L | L

Reward / penalty mechanism – For 2008 the employee safety indicator establishes a Deadband from 5.93 to 6.27 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 $3,000,000. The Benchmark is subject to an annual improvement factor of 0.15 beginning in 2009 through 2011. For these years the Deadband is revised to plus/minus 0.17 from the revised Benchmark. The Reward and Penalty Bands are also revised to reflect the maximum reward/penalty under the safety incentive mechanism. Refer to table below for details. L,T | L,T N | N L,N

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

Sheet 7

G. PERFORMANCE INDICATOR (Continued) D

D

1. Employee Safety Indicator (Continued) T

Employee Safety Table

| | 2008 | 2009 | 2010 | 2011 | |
|---|---|---|---|---|---|
| | | | | | N |
| Benchmark ………………….. | 6.10 | 5.95 | 5.80 | 5.65 | T,N |
| Deadband …………………… | 5.93 – 6.27 | 5.78 – 6.12 | 5.63 – 5.97 | 5.48 – 5.82 | T,N |
| Penalty Liveband …………… | 6.28 – 7.48 | 6.13 – 7.33 | 5.98 – 7.18 | 5.83 – 7.03 | N |
| Reward Liveband …………… | 4.72 – 5.92 | 4.57 – 5.77 | 4.42 – 5.62 | 4.27 – 5.47 | T,N |
| Incentive Rate ……………..… | $25,000 / .01 | $25,000 / .01 | $25,000 / .01 | $25,000 / .01 | N |
| Maximum Reward / Penalty .... | $3,000,000 | $3,000,000 | $3,000,000 | $3,000,000 | T,N |

D

2. Service Guarantee Program L,T

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. L

D

(Continued)

H. RATEMAKING PROCEDURES

1. Annual PBR Report

SoCalGas will file an annual advice letter providing the results of the performance indicators for the previous calendar year. For any rewards/penalties under the PBR mechanism, SoCalGas shall as noted below include such rewards/penalties in rates on January 1 of the subsequent year upon Commission approval. SoCalGas will submit this advice letter on May 1 of the following year.

2. Annual Internal Audit Report

SoCalGas will undertake an annual internal audit to ensure the incentive mechanism for safety as D,T
described in Section G above is implemented, operated, and calculated correctly and fairly. The T
internal audits will examine internal controls and management oversight of the calculations. The internal audit reports shall disclose all audit findings and recommended remediation. The internal audit reports will be submitted to the Director of the Energy Division, Director of the Consumer Protection and Safety Division, and the Director of the Division of Ratepayer Advocates. The internal audit report will be held confidential pursuant to the Commission's General Order 66-C and Public Utilities Code Section 583. SoCalGas will submit the internal audit reports on May 1 of each year for the prior calendar year. SoCalGas executive management will report all remedial actions taken in response to the internal audit as part of the report.

3. Rewards and Penalties Balancing Account (RPBA)

Pursuant to D.08-07-046, SoCalGas shall record rewards and penalties under the PBR mechanism in its Rewards and Penalties Balancing Account (RPBA). SoCalGas shall include the projected RPBA year-end balance in its annual October regulatory account balance update filing for amortization in rates effective January 1 of the following year.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

 T

I. CORE PRICING FLEXIBILITY

1. Overview

a. D.97-07-054 and D.98-01-040 authorize SoCalGas, at its option, to serve core customers with rates that may be discounted as low as the Commission-authorized floor rates detailed in section K.2 below. Under this arrangement, SoCalGas shareholders are responsible for any reduction in core revenues that may occur under discounting, including any discounting of ITCS, while any revenue gains are shared between ratepayers and shareholders as described below. SoCalGas may use the following two methods to offer alternative rates to core customers:

1) Optional Tariffs - Optional tariff rate schedules apply to all similarly situated customers who meet a certain set of qualifications. At least 10 customers should be potentially eligible.

2) Negotiated Rates - Negotiated rates apply to individual customers, and are established through individually negotiated contracts that may vary from customer to customer.

b. The entire discounting program is subject to review by the Commission if new customer participation approaches 5% of the total core volume adopted in SoCalGas' 1996 BCAP (D.97-04-082).

c. Customers eligible for service under optional tariffs or negotiated rates retain the right to be served under their Otherwise Applicable Tariff rate schedule.

d. To ensure that ratepayers are isolated from any risk of revenue shortfall that may result from SoCalGas offering discounted core rates, the Commission has authorized a Core Fixed Cost Account (CFCA) adjustment mechanism. This mechanism credits the CFCA with revenues equal to those expected absent any optional tariffs or negotiated rates.

e. SoCalGas will submit documentation on the results of its core pricing flexibility program activity in its annual PBR Report filing.

f. Optional tariffs and negotiated rates are subject to change by the Commission as authorized by General Order 96-B, Industry Rule 7.1.

(Continued)

PRELIMINARY STATEMENT Sheet 10 T
PART XI
PERFORMANCE BASED REGULATION
(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. 3891, effective September 1, 2008. Full Transportation Rates are updated with new values established in D.00-04-060, Resolution G-3303, D.01-12-018, D.06-12-031, Resolution G-3407 and SoCalGas Advice No. 3895, effective October 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.

| Class | Full Transportation Rate | LRMC Floor Rate |
|---|---|---|
| Residential | 44.1 cents/therm | 23.3 cents/therm |
| G-10, 0 to 3 Mth | 72.9 cents/therm | 36.2 cents/therm |
| G-10, 3-50 Mth | 26.5 cents/therm | 10.8 cents/therm |
| G-10, 50-250 Mth | 18.4 cents/therm | 6.5 cents/therm |
| G-10, >250Mth | 8.7 cents/therm | 4.2 cents/therm |
| Gas A/C | 12.4 cents/therm | 5.7 cents/therm |
| Gas Engines | 11.6 cents/therm | 5.3 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).

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

Sheet 11 T

I. CORE PRICING FLEXIBILITY (Continued)

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.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION



(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.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(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)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

 T

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.

(Continued)

J. BIENNIAL COST ALLOCATION PROCEEDING (BCAP)

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.

(Continued)

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PERFORMANCE BASED REGULATION
(Continued)

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.

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

 T

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

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.

(Continued)

PRELIMINARY STATEMENT
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(Continued)

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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