STATE OF CALIFORNIA Edmund G. Brown Jr., *Governor*

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

Revised

May 10, 2013 **Advice Letter 4485-G**

Rasha Prince, Director
Regulatory Affairs
Southern California Gas
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

SUBJECT: Establishment of Cost of Capital Mechanism (CCM) Pursuant to Decision 13-03-015

Dear Ms. Prince:

Advice Letter 4485-G is effective as of May 17, 2013.

Sincerely,

Edward Randolph

Edward F. Randolph, Director
Energy Division

Rasha Prince
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
Tel: 213.244.5141
Fax: 213.244.4957
RPrince@semprautilities.com

April 17, 2013

Advice No. 4485
(U 904 G)

Public Utilities Commission of the State of California

Subject: Establishment of Cost of Capital Mechanism (CCM) Pursuant to Decision (D.) 13-03-015

Southern California Gas Company (SoCalGas) hereby submits for filing revisions to its Preliminary Statement Part XI, Performance Based Regulation, and a new Preliminary Statement XIV, Cost of Capital Mechanism (CCM), applicable throughout its service territory, as shown on Attachment B.

Purpose

Pursuant to Ordering Paragraph (OP) 7 of Decision (D.) 13-03-015, this filing seeks approval to establish the CCM as discussed below.

Background

On March 21, 2013, the Commission in D.13-03-015 approved a stipulation agreement which resolved all Phase 2 issues associated with the California utilities' cost of capital adjustment mechanism. The stipulation agreement, among other things, continues the CCM unchanged for those utilities that implemented the mechanism pursuant to D.08-05-035; replaces SoCalGas' Market-Indexed Capital Adjustment Mechanism (MICAM) with CCM; sets a benchmark index of 4.24% for San Diego Gas and Electric Company and SoCalGas based on Moody's long-term A utility bond index for the 12-month period ending September 2012; and requires utilities to file test year 2016 cost of capital applications on April 20, 2015.

Establishment of CCM

Pursuant to D.13-03-015, SoCalGas is creating a separate Preliminary Statement (i.e., Preliminary Statement Part XIV) to establish its CCM. The CCM replaces SoCalGas' MICAM which is described in Section F of SoCalGas' Preliminary Statement Part XI which is proposed to be eliminated consistent with this decision.

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 of this Advice Letter which is May 7, 2013. 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
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

A copy of the protest should be sent via e-mail to the attention of the Energy Division Tariff Unit (EDTariffUnit@cpuc.ca.gov). 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 this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. However, SoCalGas respectfully requests that this advice letter be approved and made effective March 21, 2013, the effective date of D.13-03-015, issued April 2, 2013.

Notice

A copy of this advice letter is being sent to the parties listed on Attachment A, which includes parties in the service list for A.12-04-017, et al.

Rasha Prince
Director, Regulatory Affairs

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 904G)**

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

EXPLANATION OF UTILITY TYPE	(Date Filed/ Received Stamp by CPUC)
ELC = Electric GAS = Gas PLC = Pipeline HEAT = Heat WATER = Water	

Advice Letter (AL) #: 4485

Subject of AL: Establishment of Cost of Capital Mechanism (CCM) Pursuant to D. 13-03-015

Keywords (choose from CPUC listing): Cost of Capital, Preliminary Statement

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

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:
D.13-03-015

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: 3/21/13 No. of tariff sheets: 15

Estimated system annual revenue effect: (%): N/A

Estimated system average rate effect (%): N/A

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: PS XI, PBR, new PS XIV, CCM and TOCs

Service affected and changes proposed[1] See Advice Letter

Pending advice letters that revise the same tariff sheets: None

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

CPUC, Energy Division	**Southern California Gas Company**
Attention: Tariff Unit	**Attention: Sid Newsom**
505 Van Ness Ave.,	**555 West 5th Street, GT14D6**
San Francisco, CA 94102	**Los Angeles, CA 90013-1011**
EDTariffUnit@cpuc.ca.gov	**SNewsom@semprautilities.com**
	tariffs@socalgas.com

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

ATTACHMENT A

Advice No. 4485

(See Attached Service Lists)

ATTACHMENT B
Advice No. 4485

Cal. P.U.C. Sheet No.	Title of Sheet	Cancelling Cal. P.U.C. Sheet No.
Revised 49070-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 6	Revised 43903-G Revised 43904-G
Revised 49071-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 7	Revised 43904-G Revised 43905-G
Revised 49072-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 8	Revised 45287-G Revised 43905-G
Revised 49073-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 9	Revised 48712-G Revised 45287-G
Revised 49074-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 10	Revised 48712-G Revised 43908-G
Revised 49075-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 11	Revised 43908-G Revised 43909-G
Revised 49076-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 12	Revised 47164-G Revised 43909-G
Revised 49077-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 13	Revised 47164-G Revised 43911-G
Revised 49078-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 14	Revised 46733-G Revised 43911-G
Revised 49079-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 15	Revised 47165-G Revised 46733-G
Revised 49080-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 16	Revised 47165-G Revised 45291-G
Revised 49081-G	PRELIMINARY STATEMENT, PART XI, PERFORMANCE BASED REGULATION, Sheet 17	Revised 45291-G Revised 45292-G
Original 49082-G	PRELIMINARY STATEMENT, PART XIV, COST OF CAPITAL MECHANISM (CCM)	
Revised 49083-G	TABLE OF CONTENTS	Revised 49069-G
Revised 49084-G	TABLE OF CONTENTS	Revised 48688-G

F. PERFORMANCE INDICATOR D,T

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.

1. 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 – 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.

Employee Safety Table L

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

L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

(Continued)

F. PERFORMANCE INDICATOR (Continued) L,T

2. 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.

G. RATEMAKING PROCEDURES T,L

1. Annual PBR Report L

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. L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

G. RATEMAKING PROCEDURES (Continued) L,T

2. Annual Internal Audit Report

SoCalGas will undertake an annual internal audit to ensure the incentive mechanism for safety as described in Section G above is implemented, operated, and calculated correctly and fairly. The 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.

H. CORE PRICING FLEXIBILITY T,L

1. Overview L

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, 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. L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

1. Overview (Continued)

   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.

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

   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, 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. 4053, effective January 1, 2010. 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. 4442 effective January 1, 2013. 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. L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

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

Class	Full Transportation Rate	LRMC Floor Rate
Residential	53.6 cents/therm	23.3 cents/therm
G-10, 0 to 3 Mth	55.4 cents/therm	36.2 cents/therm
G-10, 3-50 Mth	24.4 cents/therm	10.8 cents/therm
G-10, 50-250 Mth	10.4 cents/therm	6.5 cents/therm
G-10, >250Mth	8.6 cents/therm	4.2 cents/therm
Gas A/C	6.0 cents/therm	5.7 cents/therm
Gas Engines	8.1 cents/therm	4.9 cents/therm
NGV	6.8 cents/therm	3.7 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.

L

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. L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

3. Types of Customers and Contracts (Continued)

b. Existing Customers (Continued)

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.

4. Temperature Sensitive Definition L

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. L

(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

5. CFCA Adjustment Mechanism (Continued)

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.

d. CFCA Credits L

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. L

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

5. CFCA Adjustment Mechanism (Continued)

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.

f. The revenue calculation for the CFCA adjustment mechanism shall remain unaffected by Backbone Transportation Service (BTS) implementation per D.11-04-032.

6. Temperature Adjustment Mechanism (TAM) L

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. L

(Continued)

PRELIMINARY STATEMENT Sheet 14
PART XI
PERFORMANCE BASED REGULATION

(Continued)

H. CORE PRICING FLEXIBILITY (Continued) L,T

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.

I. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) T,L

1. The TCAP 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 filed its 2009 Biennial Cost Allocation Proceeding (BCAP) application in February of 2008. Pursuant to D.09-11-006, the 2009 BCAP rates are effective February 1, 2010. Within the TCAP period, rates are updated based on SoCalGas' annual consolidated year end advice letter filings. L

2. Noncore Competitive Load Growth Opportunities - Revenue Treatment L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

I. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) L,T

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

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.

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. L

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.

7) The revenue calculation for the NFCA adjustment mechanism shall remain unaffected by BTS implementation per D.11-04-032. L

(Continued)

I. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) (Continued) L,T

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

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.

c. Customers L

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. L

(Continued)

PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION
(Continued)

I. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) (Continued) L,T

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

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.

d) Regulatory Requirements L

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. L

PRELIMINARY STATEMENT N
PART XIV N
COST OF CAPITAL MECHANISM (CCM) N

A. OVERVIEW N

Pursuant to Decision (D.) 13-03-015, the Cost of Capital Mechanism (CCM) provides for an adjustment to SoCalGas' authorized Return on Common Equity (ROE) if the 12-month average of the A-rated utility bond yield changes by more than plus/minus 100 basis points from the benchmark.

B. EFFECTIVE DATE/DURATION

The CCM was established effective March 21, 2013 by the Commission and shall be effective until modified or terminated by further action of the Commission.

C. DESCRIPTION OF MECHANISM

The automatic ROE adjustment mechanism is triggered when the October through September 12-month average of Moody's long-term A-rated utility bond yield is more than 100 basis points higher or lower than the benchmark, which is either the October through September average of A utility bond yields from the year of SoCalGas' most recent cost of capital (COC) proceeding or the most recent year thereafter where the October through September average utility bond yield triggers an automatic adjustment.

Pursuant to D.13-03-015, Ordering Paragraph 7, SoCalGas shall use Moody's long-term A utility bond index in determining whether the CCM's 100-basis point dead band is triggered. The established benchmark is 4.24%, which is the Moody's October 2011 through September 2012 average of the A-rated utility bond yield. Should SoCalGas' credit rating change or a catastrophic event occurs that materially impacts its COC and/or capital structure during the three-year interval between full COC applications, SoCalGas may file a COC application.

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

a. The ROE is adjusted by one-half of the difference between the A utility bond average and the benchmark.

b. Costs of long-term debt and preferred stock are updated to reflect actual August month-end embedded costs in the trigger year, forecasted interest rates for variable long-term debt, and new long-term debt and preferred stock scheduled to be issued.

c. The currently authorized capital structure is used to calculate an updated rate of return, which is filed by advice letter on October 15 of the trigger year to be effective January 1 of the following year.

In the year of a COC filing, the CCM would not be used because the COC proceeding will set new rates for the following year. N

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

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