

PRELIMINARY STATEMENT
 PART XI
PERFORMANCE BASED REGULATION

Sheet 1

A. OVERVIEW

Pursuant to Decision (D.) 19-09-051, Test Year (TY) 2019 General Rate Case (GRC), the Performance Based Regulation (PBR) Mechanism consists of 1) an authorized base margin effective January 1, 2019 and the related increase for each of the post TYs, 2) a revenue adjustment mechanism, 3) Z-Factor, and 4) gas transmission, distribution, and storage safety reporting requirements.

- Authorized Base Margin – The GRC decision establishes an authorized base margin for TY 2019 and an increase for each of the post-test years for the GRC cycle through 2021.
- 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.
- Safety Report – SoCalGas is required to submit a semi-annual Gas Transmission, Distribution, and Storage safety report to the Directors of the Safety and Enforcement Division and the Energy Division.

B. EFFECTIVE DATE/DURATION

The PBR mechanism shall be effective January 1, 2019 until the implementation of the next GRC. Pursuant to D.19-09-051, the performance incentive shall be effective from 2019 onwards until modified or terminated by further action of the Commission. SoCalGas shall file a Test Year 2022 general rate case application.

C. AUTHORIZED BASE MARGIN

The 2019 authorized base margin for SoCalGas is \$2,666,588,000. For the attrition years of 2020-2021, the authorized base margin will increase for each year as follows:

\$216,607,000 in 2020, and
 \$149,115,000 in 2021.

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 ADVICE LETTER NO. 5536
 DECISION NO. 19-09-051

ISSUED BY
Dan Skopec
 Vice President
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(TO BE INSERTED BY CAL. PUC)
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C. AUTHORIZED BASE MARGIN (Continued)

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.19-09-051 (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.

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 not 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:

- 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.

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E. Z FACTOR

1. Definition (Continued)

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.

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

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E. Z FACTOR (Continued)

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

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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F. PERFORMANCE INDICATOR

1. 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.

G. CORE PRICING FLEXIBILITY

1. Overview

Pursuant to D.18-05-006, effective May 10, 2018, this section is closed to new contracts, and upon expiration, existing contracts.

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 F.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.

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G. CORE PRICING FLEXIBILITY (Continued)

1. Overview (Continued)

a. (Continued)

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.

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, PITCO/POPCO transition costs, core averaging costs, and other exclusion costs.

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G. CORE PRICING FLEXIBILITY (Continued)

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

b. The following table lists the full transportation rates authorized by D.14-06-007, 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 Advice No. 6168-G effective August 1, 2023. 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	119.5 cents/therm	23.3 cents/therm
G-10, 0 to 3 Mth	118.5 cents/therm	36.2 cents/therm
G-10, 3-50 Mth	69.2 cents/therm	10.8 cents/therm
G-10, 50-250 Mth	41.7 cents/therm	6.5 cents/therm
G-10, >250Mth	38.2 cents/therm	4.2 cents/therm
Gas A/C	34.6 cents/therm	5.7 cents/therm
Gas Engines	30.1 cents/therm	4.9 cents/therm
NGV	40.7 cents/therm	3.7 cents/therm

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.

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.

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.

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.

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G. CORE PRICING FLEXIBILITY (Continued)

5. CFCA Adjustment Mechanism (Continued)

- 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

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.

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PRELIMINARY STATEMENT
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G. CORE PRICING FLEXIBILITY (Continued)

5. CFCA Adjustment Mechanism (Continued)

- 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)

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.

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G. CORE PRICING FLEXIBILITY (Continued)

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.

H. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP)

- 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 2013 TCAP application in November of 2011. Pursuant to D.14-06-007, the 2013 TCAP rates are effective July 1, 2014. Within the TCAP period, rates are updated based on SoCalGas' annual consolidated year end advice letter filings.
- 2. Noncore Competitive Load Growth Opportunities - Revenue Treatment
 - a. Overview

Pursuant to D.18-05-006, effective May 10, 2018, this section is closed to new contracts, and upon expiration, existing contracts.

 - 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.

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H. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) (Continued)

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

a. Overview (Continued)

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.
- 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.

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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H. TRIENNIAL COST ALLOCATION PROCEEDING (TCAP) (Continued)

2. 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.

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.

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