PRELIMINARY STATEMENT Sheet 1 N
PART XII N
GAIN/LOSS ON SALE MECHANISM (GLOSM) N

A. OVERVIEW N

Pursuant to the Gain on Sale (GOS) Decision (D.) 06-05-041, modified by D.06-12-043, and Resolution G-3399, the GLOSM establishes a process for allocating net proceeds received by the Utility for the sale of land, assets such as buildings, or other intangible assets formerly used to serve utility customers. The mechanism applies to the after tax gains or losses associated with the sale of depreciable and non-depreciable assets.

B. EFFECTIVE DATE

The GLOSM shall be effective beginning May 25, 2006. The GLOSM is applicable to past asset sales deferred to D.06-05-041 (modified by D.06-12-043) and listed on Appendix A of that decision.

C. DEFINITION OF GAIN/LOSS ON SALE

Utility receives a gain (loss) on sale when it sells an asset such as land, buildings or other tangible or intangible assets at a price higher (lower) than the acquisition cost of the non-depreciable asset or the depreciated book value of the depreciable asset.

1. Non-depreciable assets include, but are not limited to, land, water rights and goodwill.

2. Depreciable assets include, but are not limited to, buildings, machinery, equipment, materials and vehicles.

D. PERCENTAGE ALLOCATION RULE

Utility ratepayers and shareholders shall be allocated gains (or losses) for routine asset sales where the sale price is $50 million or less and where the after tax gain or loss is $10 million or less as follows:

1. Depreciable Asset Sales - ratepayers shall receive 100% of the gain (or loss) since ratepayers bear the risk associated with owning such property.

2. Non-Depreciable Asset Sales - ratepayers shall receive 67% of the gain (or loss). The Utility's shareholders shall receive 33% of the gain (or loss) on the sale.

The ratepayers' and shareholders' allocation of gains or losses shall be allocated on a net after tax basis. The ratepayers' allocation shall be grossed-up to a revenue requirement (i.e., for income taxes and franchise and uncollectible costs) and the shareholders' allocation shall be an exclusion to the Utility's Performance Based Regulation (PBR) sharing mechanism. N

(Continued)

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PART XII N
GAIN/LOSS ON SALE MECHANISM (GLOSM) N

(Continued)

D. PERCENTAGE ALLOCATION RULE (Continued) N

Example - Allocation of Gain on Sale of Non-Depreciable Asset

Sales Price (net of costs incurred to sell asset)		$1,400,000
Less:		
Acquisition Cost	$500,000	
Taxes	360,000	
Subtotal – Net Costs		860,000
Net After Tax Gain		$540,000

The ratepayers' share of the gain before gross-up equals:

$540,000 * 67% = $361,800

The ratepayer credit is "grossed-up" to a revenue requirement by using the factor 1/ (1- *t*).

Where: *t* = the income tax (federal and statutory rate) factor

The grossed-up ratepayer credit equals:

$361,800 /(1 – 0.4075[1]) = $610,633

The shareholders' allocation of the net after tax gain equals:

$540,000 * 33% = $178,200[2]

[1] Combined federal and statutory income tax factor.
[2] This amount is an exclusion to SoCalGas PBR sharing mechanism. N

(Continued)

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PART XII N
GAIN/LOSS ON SALE MECHANISM (GLOSM) N

(Continued)

E. EXCEPTIONS TO THE PERCENTAGE ALLOCATION RULE N

The percentage allocation rule does not apply in the following situations:

1. Sale Price/Gain or Loss Threshold - Asset sales where the sale price exceeds $50 million or the after tax gain or loss exceeds $10 million.

2. Sale of Entire Distribution System – Allocation of gain to shareholders in limited circumstances where the following conditions are met:

   a. a public utility sells a distribution system to a governmental entity,

   b. the distribution system consists of part or all of the utility operating system located within a geographically defined area,

   c. the components of the system are or have been included in rate base of the utility, and

   d. the sale of the system is concurrent with the utility being relieved of, and the governmental entity assuming, the public obligations to the customers within the area served by the system.

   If the above conditions are met, then the gains or losses from the sale of the system should be allocated to utility shareholders, provided that the ratepayers have not contributed capital to the distribution system and the remaining ratepayers are not adversely affected by the transfer of the system.

3. After-Tax Loss Greater Than $50 Million - The Utility shall automatically seek case-by-case determination of how to allocate the loss. In cases involving losses of $50 million or less, the Utility may seek allocation of the loss according to the percentage allocation rule described above. However, if any party, including DRA, contends that the Commission should allocate the loss, in whole or part, to utility shareholders, the party should seek case-by-case treatment in a protest to the Utility's application.

4. Retirements of Minor Utility Assets – The gains and losses associated with the retirement of minor assets such as utility poles, transformers, and vehicles are governed by other Commission depreciation rules and schedules. N

(Continued)

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GAIN/LOSS ON SALE MECHANISM (GLOSM) N

(Continued)

E. EXCEPTIONS TO THE PERCENTAGE ALLOCATION RULE (Continued) N

5. Other Exclusions - The percentage allocation rule also does not “automatically” apply in the following situations:

   a. utility sales of assets that are extraordinary in character;

   b. sales of nuclear power plants;

   c. where a party alleges the utility engaged in highly risky and non-utility related ventures; or

   d. where a party alleges the utility grossly mismanaged the assets at issue.

In the situations identified, but not intended to be limited thereto, the Utility or other party may request that the Commission exclude the transaction from the 67-33% allocation rule. If the Commission rules that the situation should be an exception, it may evaluate how to allocate gains or losses without applying the general rule.

F. ALLOCATION OF GAINS/LOSSES ASSOCIATED WITH PROPERTY IN AND OUT OF RATE BASE OVER TIME

For the time the property was in rate base, the allocation of the gain/loss shall be subject to the percentage allocation rule. Shareholders shall receive 100% of the allocation of the gain for the time the property was out of rate base. However, if there is evidence that demonstrates that most of the property’s appreciation (or depreciation) occurred while the property was in (or out of) rate base, evidence of such variance may be submitted to rebut the presumption. In all cases, the utility bears the burden of proving the assets’ time in and out of rate base.

Example – Allocation of Gain Associated with Property In and Out of Rate Base

Using the same example in Section D. and assuming the utility asset (non-depreciable) was in rate base 40% of the time and out of rate base 60% of the time, the allocation of the gain shall be calculated as follows: N

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GAIN/LOSS ON SALE MECHANISM (GLOSM) N

(Continued)

F. ALLOCATION OF GAINS/LOSSES ASSOCIATED WITH PROPERTY IN AND OUT OF RATE BASE OVER TIME (Continued) N

Example – Allocation of Gain Associated with Property In and Out of Rate Base (Continued)

The ratepayers' share of the gain before gross-up equals:

$540,000 * 40% * 67% = $144,720

The grossed-up ratepayer credit equals:

$144,720 /(1 – 0.4075) = $244,253

The shareholders' allocation of the net after tax gain equals:

For time in rate base -	$540,000 * 40% * 33% =	$ 71,280
For time out of rate base -	$540,000 * 60% * 100% =	$324,000
		$395,280

G. NOTIFICATION OF SALE

The GOS Decision does not change the circumstances under which utilities must file applications seeking Commission approval of asset sales. Utility shall be governed by Section 851 and follow any procedures the Commission adopts to implement Section 851 mandates. However, the Utility may, if appropriate, file by advice letter for Commission approval to sell utility assets under a pilot program adopted by the Commission in Resolution ALJ-186 which was designed to streamline the Commission's review of certain Section 851 transactions.

H. REFUND (RECOVERY) OF RATEPAYERS' ALLOCATION OF GAINS (LOSSES)

The ratepayers' allocation of the after tax gain or loss, grossed-up for income taxes, shall be recorded in the Gain/Loss on Sale Memorandum Account (GLOSMA) as described in Preliminary Statement, Part VI, Description of Regulatory Accounts – Memorandum. The balance in the GLOSMA after gross-up to a revenue requirement (i.e., adjusted for franchise fees and uncollectible costs), shall be amortized in transportation rates on an equal percent of marginal cost (EPMC) basis in connection with the Utility's annual regulatory account balance update filing. N

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PRELIMINARY STATEMENT
PART XII
GAIN/LOSS ON SALE MECHANISM (GLOSM)

(Continued)

I. REPORTING REQUIREMENTS – UTILITY ASSETS TAKEN OUT OF SERVICE N

Utility is to report annually to the Commission whenever any portion of an "electric, gas, heat, or water generation or production facility" is out of service, and immediately when a portion of such facility has been out of service for nine consecutive months pursuant to Public Utilities Code Section 455.5. This reporting requirement applies only to major electric, gas, heat or water generation or production facilities. Major facilities are defined in D.07-09-021:

For gas utilities, a "major generation or production facility" for purposes of the requirements of Pub. Util. Code § 455.5 is a facility representing at least 25% of the utility's storage capacity. A "major generation or production facility" for this purpose includes a gas storage field. A gas storage field is "out of service" if the mechanical equipment used to inject or withdraw gas at the field is not available to inject or withdraw gas at a rate of at least 25% of the capacity of the equipment. A facility is out of service and subject to the reporting requirement irrespective of the cause of the out of service condition. N