PRELIMINARY STATEMENT
PART XIV
COST OF CAPITAL MECHANISM (CCM)

A. OVERVIEW

Pursuant to Decision (D.) 22-12-031, the Cost of Capital Mechanism (CCM) if triggered, provides for an adjustment to SoCalGas' authorized cost of long-term debt based on actual costs and an update to SoCalGas' authorized Return on Common Equity (ROE) up or down by one-half of the change in the applicable 12-month average Moody's utility bond index.

B. EFFECTIVE DATE/DURATION

The CCM was established for SoCalGas by the Commission in D.13-03-015, reaffirmed in D.22-12-031, and shall be effective until modified or terminated by further action of the Commission.

C. DESCRIPTION OF MECHANISM

In the year of a Cost of Capital (COC) filing, the CCM is not in effect because the COC proceeding will set new rates for the following year. The CCM applies in the years when SoCalGas does not file a COC application.

The CCM is triggered when the October through September 12-month average of the monthly averages of the applicable Moody's utility bond index is more than 100 basis points (1.00 percent) higher or lower than the benchmark. The index applicable to each utility is based on each utility's credit rating.

Pursuant to D.13-03-015, Ordering Paragraph 7, applied in D.22-12-031 SoCalGas shall use Moody's long-term utility bond index in determining whether the CCM's 100-basis point dead band is triggered, based upon SoCalGas' credit rating. The currently established CCM benchmark rate is 5.472%, which I
is the average of the October 2022 through September 2023 monthly averages of the Moody's A-rated C
utility bond index.

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

C. DESCRIPTION OF MECHANISM (Continued) N

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

a. The ROE is adjusted by one-half of the difference between the applicable 12-month average Moody's utility bond index and the benchmark. L,D,N L,D,N

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. L | L

c. The currently authorized capital structure is used to calculate an updated rate of return, which is submitted by advice letter on October 15 of the trigger year to be effective January 1 of the following year. There is no change to the authorized capital structure. L L,T L,N

d. The CCM benchmark is reestablished. N

Pursuant to D.13-03-015, 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 instead file a COC application. D,N N N