

PRELIMINARY STATEMENT - PART VI - MEMORANDUM ACCOUNTS Sheet 1
Z FACTOR ACCOUNT (ZFA)

The ZFA is an interest bearing memorandum account recorded on SoCalGas' financial statements. The purpose of this account is to track costs associated with events that are potential "Z Factors." Z Factors are exogenous and unforeseen events largely beyond SoCalGas' control that have a material impact on SoCalGas' costs. D.97-07-054 (PBR), Conclusion of Law 16, authorized SoCalGas to establish the ZFA to allow Z Factor costs to be handled outside the PBR mechanism. Examples of Z Factors include, but are not limited to, accounting rule changes, new government mandates, and tax law changes. For more detail on Z Factors, see Preliminary Statement Part XI, section E.

SoCalGas maintains the ZFA by adding sub-accounts, and making appropriate accounting entries to each sub-account. When a potential Z Factor event occurs, SoCalGas will promptly advise the Commission of its occurrence, and add a new sub-account to the ZFA. Once the sub-account is established, SoCalGas maintains the sub-account(s) by making monthly entries as follows: debits for actual Z Factor costs related to the corresponding event; and credits for the amortization of prior sub-account balances, as authorized by the Commission, if any.

For each BCAP filing, SoCalGas will reconcile this account and adjust rates as needed, taking into consideration the \$5,000,000 deductible which is applicable to each qualifying Z Factor event.

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(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 3653
 DECISION NO.

ISSUED BY
Lee Schavrien
 Vice President
 Regulatory Affairs

(TO BE INSERTED BY CAL. PUC)
 DATE FILED Aug 15, 2006
 EFFECTIVE Sep 14, 2006
 RESOLUTION NO. _____