PRELIMINARY STATEMENT Sheet 1 T
PART III
COST ALLOCATION AND REVENUE REQUIREMENT

A. BIENNIAL COST ALLOCATION PROCEEDING:

1. In a Biennial cost Allocation Proceeding (BCAP), the Utility shall file and the Commission shall authorize an allocation of the Utility's revenue requirement and reallocation of balancing account balances among customer classes, the rates for core customers and the rates for noncore customers.

   The Utility's BCAP application shall be filed every other year (1996, 1998 and so on) on or before March 15 for rates to effective for service on October 1 or thereafter. C

2. An advice filing may be filed 45 days prior to the end of the first year of the BCAP cycle, if the balance in the Utility's Purchased Gas Account (PGA) plus the balance in the Core Fixed Cost Account (CFCA), amortized over the 12 months of currently adopted sales, results in a change in the average core bundled rate of plus or minus 5 percent. This advice letter shall not change the allocation of fixed costs nor change the transmission charges to noncore customers.

   The percentage change shall be determined using the following information:

   a. An updated forecast of core demand;

   b. A forecast of gas costs based on the gas purchase mix established for ratemaking purposes in the most recent cost allocation proceeding;

   c. The core cost of gas portion of the revenue requirement, plus a twelve-month amortization of the forecasted balance in the PGA, divided by the forecast of core gas sales volumes; and

   d. The core portion of the total non-gas costs adopted in the most recent cost allocation proceeding, excluding CEA costs, plus a twelve-month amortization of the forecasted balance in the CFCA, divided by the forecast of core gas sales.

3. The forecast periods for the above rate filings shall be the twelve-month period beginning with the revision dates in the applications.

4. Other decisions by the Commission may require rate revisions at times other than those specified herein.

(Continued)

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PART III
COST ALLOCATION AND REVENUE REQUIREMENT
(Continued)

B. REVENUE REQUIREMENT:

The Utility's revenue requirement consists of the sum total of all estimated costs to provide service for the forecast period. Rates will be established to recover all items in the Revenue Requirement. The components of the revenue requirement are as follows:

1. TRANSITION COSTS

Transition costs are those actual or estimated costs remaining from the past structure and practices of the gas industry resulting from a gas purchase contract, tariff or arrangement that must have taken effect before the division of the Utility's gas supply portfolio pursuant to Decision Nos. 86-12-009 and 86-12-010, dated December 3, 1986. These costs have been initiated for the benefit of all ratepayers, have been intended to be recouped from all ratepayers, and now result in costs in excess of a currently reasonable level.

Transition costs allocated to the core market shall be recovered through the CFCA. Transition costs allocated to the noncore market shall be recovered through the Noncore Cost Revenue Memorandum Account (NCRMA). See Preliminary Statement, Part V and VI for a description of the CFCA and NCRMA, respectively.

Transition Cost Categories:

a. Take-or-Pay Costs: These are the costs that may be passed on to the Utility by pipelines for the buy-out or buy-down of pipelines' obligations with their producer-suppliers to take a given amount of gas or pre-pay the costs of such gas not taken.

b. Minimum Purchase Obligation (MPO) Excess Gas Costs: These are the gas costs in excess of a reasonable amount that would be paid in a competitive market.

c. PITCO/POPCO Transition Costs (PPTC): These are the buydown costs to reduce PITCO and POPCO gas costs to market levels and excess costs above market levels thereafter.

d. Interstate Pipeline Capacity Costs: Excess El Paso interstate pipeline capacity costs are allocable to noncore customers. T

2. PIPELINE DEMAND CHARGES

Pipeline Demand Charges include Transwestern, El Paso, PITCO and POPCO fixed costs allocable to core customers.

(Continued)

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PART III
COST ALLOCATION AND REVENUE REQUIREMENT
(Continued)

B. REVENUE REQUIREMENT: (Continued)

3. CARRYING COST OF GAS IN STORAGE

The Carrying Cost of Gas in Storage shall be determined based on the forecasted value of gas in storage and the interest rate described in the Preliminary Statement, Part I, J.

4. PURCHASED GAS ACCOUNT (PGA) BALANCE

The revenue requirement shall include an amortization of the forecasted revision-date balance in the PGA based on the latest data available. (See Preliminary Statement, Part V for a description of the PGA.)

5. CORE FIXED COST ACCOUNT (CFCA) BALANCE

The revenue requirement shall include an amortization of the forecasted revision-date balance in the CFCA based on the latest data available. This amortization will be reflected in rates for core customers only. (See Preliminary Statement, Part V for a description of the CFCA.)

6. NONCORE FIXED COST ACCOUNT (NFCA) BALANCE T

The revenue requirement is the amortization of the forecasted revision-date balance in the NFCA based on the latest data available. This amortization will be reflected in rates for noncore customers only. (See Preliminary Statement, Part V for a description of the NFCA.)

D

7. ENHANCED OIL RECOVERY ACCOUNT (EORA) BALANCE L,T

The revenue requirement shall include an amortization of the forecasted revision-date balance in the EORA based on the latest data available. (See Preliminary Statement, Part V for a description of the EORA.)

8. NONCORE STORAGE BALANCING ACCOUNT (NSBA) BALANCE

The revenue requirement shall include an amortization of the forecasted revision-date balance in the NSBA based on the latest data available. The NSBA is subject to a storage earnings cap. As described in ~~(See~~ Preliminary Statement, Part V, the shareholders' 50% share of noncore storage revenues in excess of the cost allocation assigned to the at-risk portion of the unbundled storage program (i.e., "storage earnings") is subject to an annual cap. The annual storage earnings cap will be subject to revision based on changes in the revenue requirement allocated to the at-risk portion of the unbundled storage program resulting from an overall change in the revenue requirement for storage. The storage earnings cap will also change proportionately due to changes in cost allocation to the at-risk unbundled storage revenue requirement resulting from any regulatory proceeding. Detailed below are examples of the formulas that will be used to update the storage earnings cap resulting from changes to the revenue requirement allocated to the at-risk portion of the unbundled storage program. ~~for a description of the NSBA.)~~ L D

(Continued)

PRELIMINARY STATEMENT

Sheet 3 T

PART III

COST ALLOCATION AND REVENUE REQUIREMENT

(Continued)

The storage earnings cap shall be escalated by the earlier of either April 1(beginning of storage year) or immediately after expansion investment is placed in service using the appropriate formulas as described below:

1. Annual Inflation Adjustment

   The storage earnings cap shall be escalated by the higher of:

   a. $SE_2 = CPI_2 / CPI_1 \times SE_1$ or
   b. $SE_2 = (1 + P) \times SE_1$

2. Unbundled Storage Expansion Investment

   For unbundled storage expansion investment, the change in the storage earnings cap shall be calculated as follows:

   $SE_2 = (1 + INV_2/INV_1) \times SE_1$

3. Change in Allocation of At-risk Costs Allocated to Unbundled Storage Program

   For changes in cost allocation of the at-risk costs allocated to unbundled storage, the change in the storage earnings cap shall be calculated as follows:

   $SE_2 = (CST/INV_1) \times SE_1$

Where:

SE_2 = Revised storage earnings cap
SE_1 = Current storage earnings cap
CPI_2 = Most recently published annual U.S. All Urban CPI (Source: Bureau of Labor Statistics)
CPI_1 = Prior Year's annual U.S. All Urban CPI for the same month (Source: Bureau of Labor Statistics)
P = Annual percentage change in overall utility margin
INV_2 = Annual revenue requirement associated with the unbundled storage expansion investment cost
INV_1 = At-risk revenue requirement previously allocated to existing unbundled storage program
CST = New cost allocation revenue requirement to at-risk portion of the unbundled storage program

In the event that all conditions described above occur or a combination thereof, all the applicable formulas will be used in determining the revised storage earnings cap.

(Continued)

PRELIMINARY STATEMENT Sheet 3 T

PART III

COST ALLOCATION AND REVENUE REQUIREMENT

(Continued)

. 9. BROKERAGE FEE ACCOUNT (BFA) BALANCE

The revenue requirement shall include an amortization of the forecasted revision-date balance in the BFA based on the latest data available. (See Preliminary Statement, Part V for a description of the BFA.)

(Continued)

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PART III
COST ALLOCATION AND REVENUE REQUIREMENT
(Continued)

B. REVENUE REQUIREMENT: (Continued)

10. NONCORE COST REVENUE MEMORANDUM ACCOUNT (NCRMA) N

The revenue requirement shall include an amortization of the forecasted revision-date balance in the NCRMA based on the latest data available. This amortization will be reflected in rates for noncore customers only (see Preliminary Statement, Part VI for a description of the NCRMA). N

11. PITAS POINT FRANCHISE & UNCOLLECTIBLES ACCOUNT (PPF&UA) BALANCE T,L

The revenue requirement shall include an amortization of the forecasted revision-date balance in the PPF&UA based on the latest data available. (See Preliminary Statement, Part V for a description of the PPF&UA.) L

D,L

12. CALIFORNIA ALTERNATE RATES FOR ENERGY ACCOUNT (CAREA) BALANCE T,L

The revenue requirement shall include an amortization of the forecasted revision-date balance in the CAREA based on the latest data available. (See Preliminary Statement, Part V for a description of the CAREA.) T,L

13. LOST AND UNACCOUNTED FOR (LUAF) & COMPANY USE (CU) T,L

This cost-of-gas component shall be determined by multiplying the LUAF quantities times the system average cost of gas. L

14. PURCHASED COST OF GAS (SALES ONLY) T,L

This amount is determined by multiplying the forecasted sales by the weighted average costs of gas (WACOG) in the Utility Portfolio. L

15. FRANCHISE FEES AND UNCOLLECTIBLE ACCOUNTS EXPENSES (F&U) T,L

The amount to be added for F&U shall be determined by multiplying the sum of items B.12 through B.20 times the most recently authorized F&U factor (Uncollectible accounts expenses do not apply to wholesale customers.) L

(Continued)

PRELIMINARY STATEMENT
PART III
COST ALLOCATION AND REVENUE REQUIREMENT
(Continued)

Sheet 5

B. REVENUE REQUIREMENT: (Continued)

16. GAS MARGIN

This amount shall be the total annual base revenues authorized by the Commission. The authorized gas margin pursuant to SoCalGas Advice No. 3570, effective January 1, 2006, is $1,537,275,000. Of the total revenues $1,320,525,000 is allocated to the core market and $202,175,000 is allocated to the noncore market. The allocated noncore margin includes EOR revenues of $20,010,000, and an unbundled storage cost of $21,000,000. Unallocated costs are $14,574,000. T,I I,I I

17. COST AND REVENUE ALLOCATION FACTORS

These factors were determined pursuant to D.00-04-060, D.01-12-018, and SoCalGas Advice No. 3570, effective January 1, 2006, and are used to allocate costs and revenues to the core and noncore customer classes. T

	Factor		
Cost Categories:	Core	Noncore (including wholesale)	
Transition Costs	0.000	1.000	I,R
Unaccounted-for Gas	0.721	0.279	
Company Use Gas: Storage	0.657	0.343	
NGV Balancing Account	0.422	0.578	
Storage Transition and Bypass Account	0.358	0.642	
Core Fixed Cost Account	1.000	0.000	
Enhanced Oil Recovery Account	0.907	0.093	
Revenue Categories:			
Exchange and Interutility Transactions	0.381	0.619	
Core Brokerage Fee Adjustment	1.000	0.000	
Noncore Brokerage Fee Adjustment	0.000	1.000	
Fuel Cell Equipment Revenues	0.889	0.111	