BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G), San Diego Gas & Electric Company (U 902 M) and Southern California Edison Company (U 338 E) for Approval of Changes to Natural Gas Operations and Service Offerings	)))))))	A.06-07-____ (Filed August 28, 2006)

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E) FOR APPROVAL OF CHANGES TO NATURAL GAS OPERATIONS AND SERVICE OFFERINGS

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August 28, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION

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APPLICATION OF
SOUTHERN CALIFORNIA GAS COMPANY (U 904 M),
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) AND
SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E) FOR APPROVAL OF
CHANGES TO NATURAL GAS OPERATIONS AND SERVICE OFFERINGS

In accordance with the Commission's Rules of Practice and Procedure, Southern California Gas Company ("SoCalGas"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("Edison") (collectively "Applicants") hereby submit this application ("Application") for approval to change certain operational practices and services offered by SoCalGas and SDG&E. In addition, Applicants request that the Commission close certain pending Commission proceedings that consider past actions by SoCalGas, SDG&E, Sempra Energy, Edison, and other companies.

I. BACKGROUND

The Commission, SoCalGas, SDG&E, Sempra Energy, and Edison have spent considerable time and resources to address issues resulting from the energy crisis of 2000-2001. Some of those issues still remain in Commission dockets. SoCalGas, SDG&E, Sempra Energy, Edison, and numerous other parties have reached agreement on a number of proposed changes to the natural gas operations and service offerings of SoCalGas and SDG&E in an attempt to resolve these remaining issues. SoCalGas and SDG&E do not believe their actions violated either the letter or the spirit of any laws or regulations. In an effort to put these issues behind them and reduce the need for further time-consuming litigation, however, they have agreed to several changes in operations and service offerings. These agreements are the result of extensive negotiations and compromise, and represent comprehensive packages that, in their entirety, provide significant benefits to energy consumers in California.

II. PROPOSED CHANGES TO SOCALGAS' AND SDG&E'S OPERATIONS AND SERVICE OFFERINGS

Two recent settlements provide for changes to the operations and service offerings of SoCalGas and SDG&E. With this current Application, Applicants are presenting each of these proposed changes for Commission approval (with certain limited exceptions described below).

A. PROPOSED CHANGES FROM THE CONTINENTAL FORGE SETTLEMENT

On January 4, 2006, Sempra Energy, SoCalGas, SDG&E, and other Sempra Energy affiliates entered into a settlement of certain class action antitrust and unfair competition claims arising out of the California energy crisis (the "Continental Forge Settlement"). The Continental Forge plaintiffs alleged that Sempra Energy, SoCalGas, and SDG&E conspired to restrict natural gas supplies to California and claimed damages of $23 billion (after applicable trebling). Sempra Energy and its subsidiaries vigorously denied any wrongdoing alleged in the litigation, but concluded that settlement was desirable to avoid exposing the companies to serious financial risk and put the litigation behind them. At the time of settlement, the Continental Forge claims were the subject of an ongoing jury trial that began in October of 2005. Attachment A to the Continental Forge Settlement, titled "Structural Changes to Utility Operations," outlines a package of changes to gas operations agreed to by the parties, including a commitment to propose and support:

1. Integration of the SDG&E and SoCalGas transmission facilities;
2. Cost-based tariffs for services provided by utility transmission and distribution facilities, with 100% balancing account treatment for the revenues;
3. Firm, tradable rights for access to utility receipt points and storage, with utility administration of a mechanism, including electronic bulletin board, to facilitate a secondary market;
4. An imbalance trading program;
5. Posting of information related to hub transactions, service outages, total gas in inventory, gas in inventory for the core, and indexing receipt point access and storage rights;
6. Utility rate recovery of reasonable implementation costs;
7. Provisions for conducting open seasons to determine if an expansion of the system is warranted;
8. Adoption of monthly core physical targets for the injection season;
9. Combination of the core procurement operations of SoCalGas and SDG&E under an integrated, single core procurement department, subject to the SoCalGas Gas Cost Incentive Mechanism ("GCIM");
10. Continued separation of SDG&E's gas procurement operations for its electric generation needs from the combined core procurement function;
11. Provisions for review of core procurement plans ("Gas Plans"), including winter hedging, with a Procurement Review Group ("Gas PRG"), and the use of compliance Advice Letters to obtain timely approval of these plans before the commencement of the gas year;
12. A determination that transactions following the approved Gas Plan will be deemed reasonable per se, while transactions outside the Gas Plan will be promptly reviewed for reasonableness using the Commission's "reasonable manager" standard;

13. Continued separation of the SoCalGas Gas Operations function from any core commodity procurement function;
14. Continued compliance with all merger Remedial Measures limiting the communications and information sharing between the Gas Operations and Gas Acquisition departments, and all Remedial Measures and Commission Affiliate Transaction Rules governing relations with affiliates;
15. Continued maintenance of an Electronic Bulletin Board ("EBB") that is an interactive same-day reservation and information system; and,
16. Continuation of a separate utility risk management function from Sempra Energy's Risk Management Department, and a prohibition on sharing of utility procurement-related data used to calculate value at risk and counter party credit.

The parties to the Continental Forge Settlement also agreed that through 2016, they would not propose or support proposals that undermine the purposes of the settlement. The Continental Forge Settlement is attached as Appendix A to the supporting testimony of Mr. Reed.

B. PROPOSED CHANGES FROM THE EDISON SETTLEMENT

On May 30, 2006, SoCalGas, SDG&E, Sempra Energy, and certain other Sempra Energy affiliates entered into a settlement with Edison and Edison International (the "Edison Settlement"). The Edison Settlement supplements the provisions of the Continental Forge Settlement, and provides that Edison will support the package of changes to gas operations agreed to by the parties to the Continental Forge Settlement. This settlement was the product of years of litigation in the Border Price Investigation, I.02-11-040, the Sempra Affiliate Investigation, I.03-02-033, and every SoCalGas GCIM proceeding since 1999. The negotiations that led to this settlement were extensive and at times highly contentious. SoCalGas and SDG&E were adamant that they would not enter into a settlement that harms their customers. Edison was equally adamant that any settlement would need to provide substantial benefits for noncore customers and SCE's electric customers. Moreover, Edison made a point that any such benefits would have to flow through to all noncore customers, and not just Edison's customers. The result is a carefully crafted settlement that needs to be considered as one cohesive whole. Individual elements of the settlement by themselves do not tell the entire story. Exhibit A to the Edison Settlement (Proposed Tariff Revisions) and Exhibit B to the Edison Settlement (Structural Provisions) lay out additional proposed changes to the operations of and services provided by SoCalGas and SDG&E, including:

1. Additional EBB information posting requirements;
2. Release, on an interruptible basis, of all unutilized receipt point and unbundled storage capacity at a maximum rate equal to 100% of the applicable firm reservation charge;
3. Crediting the interruptible transmission revenues to the Integrated Transmission Balancing Account ("ITBA"), subject to an annual sharing and earnings cap mechanism;
4. Facilitating the ability of customers to manage transportation imbalances by utilizing SoCalGas storage services or third-party storage providers connected to the SoCalGas system, with rate recovery of all reasonable costs of providing this new service;
5. Establishing a "meet and confer" with any customers interested in assessing the need for the development of optional enhanced tariff balancing services;
6. Modifying the existing G-TBS tariff to include an annual rate cap by unbundled service and an annual earnings cap, and closing three existing SoCalGas storage tariffs, G-AUC, G-LTS, and G-BSS, to new subscription for five years;
7. Linking the adoption of the proposal for the combination of the core procurement portfolios with a modification of the core storage capacities;
8. Treating the Utility Gas Procurement Department similarly to any other customer with respect to use of capacity rights, scheduling, management of imbalances,

procurement of additional storage capacity rights, and the ability to conduct secondary market transactions;[1]

9. Transfer of any system reliability minimum flow requirements from the core procurement function (i.e., the Utility Gas Procurement Department) to the Gas System Operator, and all such costs paid for by all customers;
10. Effective upon implementation of combined core portfolios, require the core to balance similarly to noncore customers, although core balancing will consider scheduled deliveries against a daily forecast of core usage;
11. Establishing at least 51 Bcf of inventory capacity to the unbundled storage program, so long as the system balancing allocation remains at 5.3 Bcf and the core's combined storage reservation remains at 70 Bcf;
12. Publishing annually the capacity and projected average daily usage of the transmission system for a five-year period, and convening of a public workshop if actual usage for any 12-month period exceeds 75% of system receipt capacity;
13. Expanding receipt points where justified by sustained customer benefits or funding by shippers, and providing firm access rights to match the shipper's funding of the incremental expansion of existing receipt point capacity;
14. Expanding a receipt point and lateral connection to an end-user concurrently, but without system balancing or cost shifting to other customers;
15. Developing system expansion studies;
16. Defining a storage development plan;
17. Modifying the GCIM, beginning with the winter of 2007-2008, to exclude all financial transactions used by SoCalGas to hedge natural gas prices for any portion of the November through March period; and

[1] Certain differences remain, as explained in the testimony of Mr. Van Lierop and Mr. Schwecke.

18. Transferring administration of SoCalGas' gas hub tariffs from the Utility Gas Procurement Department (previously, "Gas Acquisition") to Gas Operations concurrent with establishing the regulatory accounting procedures for incorporating the Utility Gas Procurement Department's secondary market transactions (e.g., parking, loaning) into the GCIM and PGA.

The parties to the Edison Settlement have agreed that through May 30, 2011, they will not propose or support proposals that are inconsistent with the structural relief provisions in the Edison Settlement and the Continental Forge Settlement. The Edison Settlement is attached to the supporting testimony of Mr. Reed as Appendix B.

C. CERTAIN SETTLEMENT PROVISIONS ARE NOT BEING PRESENTED FOR APPROVAL IN THIS APPLICATION

On May 5, 2006, SDG&E and SoCalGas filed a proposal to establish a system of firm access rights in A.04-12-004, commonly referred to as the Firm Access Rights or "FAR" proceeding. On June 13, 2006, SDG&E and SoCalGas served revised Prepared Direct Testimonies of Mr. Watson, Mr. Schwecke, and Ms. Allison Smith in order to conform SoCalGas and SDG&E's positions in the FAR proceeding to the relevant provision in the Continental Forge Settlement and the Edison Settlement. These revised testimonies replaced the testimonies served May 5, 2006.

SDG&E and SoCalGas are not presenting settlement provisions relating to firm access rights proposals in this proceeding. Rather, they are now all in the FAR proceeding. However, these provisions are in the Continental Forge and Edison Settlement Agreements, and represent an integral portion of the comprehensive package of settlement-related changes we are presenting for Commission approval. Accordingly, our testimony supporting this present Application includes a description of the settlement provisions relating to firm access rights proposals. Our intention with these discussions is to enable the Commission to better understand the complete settlement package and approve the overall policy direction presented by the settlement package -- while recognizing that all of our firm access proposals are actually being presented in the FAR proceeding.

Likewise, even though the Continental Forge Settlement provides for integration of the SoCalGas and SDG&E transmission systems (Section I(A)(1)), Applicants are not proposing system integration in their current Application. In April of 2006, in D.06-04-033, the Commission integrated the transmission rates of SDG&E and SoCalGas, authorized implementation of the ITBA, and specified that the new integrated transmission rate will go into effect on the date regasified LNG begins to flow through the Otay Mesa receipt point. Accordingly, there is no need to propose integration here.[2]

III. THE PACKAGE OF CHANGES TO SOCALGAS' AND SDG&E'S OPERATIONS AND SERVICE OFFERINGS PROPOSED IN THIS APPLICATION WILL BE BENEFICIAL TO CUSTOMERS

The integrated package of changes to SoCalGas' and SDG&E's operations and service offerings proposed in this Application will provide significant benefits to gas and electric utility customers. The parties to the Continental Forge litigation and Edison represent a broad spectrum of gas and electricity consumers; their negotiation of the Continental Forge Settlement and the Edison Settlement reflects the delicate balancing of a multitude of interests. As described in the testimony supporting this Application, the changes proposed in these settlements would provide benefits through a direct reduction in costs of utility service, increased transparency of utility operations and capacities, and the introduction of new services. These proposed changes will help customers lower their costs of utility service, and provide additional ways for customers to manage their procurement and transportation costs.

A number of the settlement provisions increase the transparency of utility operations and the availability of capacity. For example, the settlements provide for a substantial amount of additional information to be posted by the utilities on their interactive EBB. Additionally, with

[2] The Commission issued D.06-04-033 four months after the Continental Forge Settlement was signed.

specified monthly storage targets for core gas procurement, market participants will have a clearer understanding about how the utilities will manage inventory levels for core customers during the storage injection season. The utilities have also committed to providing 51 Bcf of inventory capacity to the unbundled storage program,[3] so unbundled storage customers will have even more certainty about the amount of inventory capacity available for purchase. Additional settlement provisions provide for unbundling of pricing for storage inventory, injection and withdrawal capacity (subject to annual price and earnings caps) -- which will provide a clearer signal to the market regarding the price of each service separate from a bundled package of storage services. Modification of SoCalGas Rule 39 to include any future third-party storage providers that connect to the utility system will provide customers with the potential ability to utilize additional supply options to manage their procurement, transportation, and storage needs. Similarly, the settlements enhance the amount of information disseminated regarding utilization of system storage and transportation capacity, and provide for regular review of system status and expansion potential. The Continental Forge Settlement also makes it explicit that SDG&E's natural gas procurement for its power plants will be separate from the combined SoCalGas and SDG&E gas procurement for core customers.

Additional settlement provisions modify existing SoCalGas and SDG&E services, or introduce new services that will provide utility customers with direct cost reductions and tools to manage their costs more effectively. SoCalGas has agreed to lower storage price caps significantly from current levels, and the new annual storage revenue cap will provide an upper limit on how much SoCalGas' shareholders can earn from the unbundled storage program, and increase the current storage revenue credit to customers' transportation rates. Moreover, by establishing and facilitating a more fluid secondary market for storage transactions, SoCalGas is creating tools that can help customers more closely match their storage rights with their storage needs. SoCalGas also proposes to enhance gas scheduling options with a "5th nomination

[3] Subject to certain conditions specified in the Edison Settlement. These conditions are also discussed in the testimony of Mr. Watson.

cycle," providing customers with a new feature to help them manage transportation imbalances. Finally, combination of SoCalGas and SDG&E's core procurement functions will provide significant cost savings to core customers.

One particular provision of the Continental Forge Settlement is that SDG&E and SoCalGas will combine their core procurement departments and procurement assets into one combined gas procurement group and asset portfolio. Combination of SoCalGas and SDG&E's core procurement groups and assets will increase the long-term economic benefits available to core customers of both utilities. These benefits include:

- Reduced costs of regulation
- Increased supply diversity for both utilities
- Reduced overall procurement costs

The changes to SoCalGas' and SDG&E's operations and service offerings described in the Continental Forge and Edison Settlements and proposed in this Application will provide significant benefits to gas and electric utility customers. Applicants urge the Commission to expeditiously adopt these proposals so that our customers can begin receiving these benefits as quickly as possible.

IV. THE COMMISSION SHOULD CLOSE TWO PENDING INVESTIGATIONS AND DETERMINE THAT GAS PROCUREMENT REWARDS ARE NO LONGER SUBJECT TO REFUND OR ADJUSTMENT AS A RESULT OF THE BORDER PRICE OII

The Continental Forge Settlement and the Edison Settlement propose changes to the way SoCalGas and SDG&E do business. These settlements are an effort to reach closure regarding open issues in a number of pending Commission proceedings that consider past actions by SoCalGas, SDG&E, Sempra Energy, Edison, and other companies. Enough time, effort, and expense has already been expended in the courts and at the Commission considering what took place in the natural gas market in the recent past, particularly during the 2000-2001 energy crisis. The settling parties believe it is time to move on, and focus on the future.

Therefore, SoCalGas, SDG&E, and Edison request that the Commission close the Border Price Spike Investigation, I.02-11-040, and the Sempra-specific investigation of the activities of Sempra Energy affiliates, I.03-02-033. Moreover, Applicants ask the Commission to determine that all previous SoCalGas GCIM and SDG&E Gas Procurement PBR rewards that were made subject to refund or adjustment as determined in the Border Price OII proceeding are no longer subject to refund or adjustment. SoCalGas GCIM and SDG&E Gas Procurement PBR rewards have been made subject to refund or adjustment as determined in the Border Price in the following decisions and resolutions: D.03-08-065; D.03-08-064; D.04-02-060; D.05-04-003; and Resolution G-3341. By closing these open investigations, and by giving SoCalGas and SDG&E closure with respect to past incentive mechanism rewards, the Commission will free up considerable resources, and enable SoCalGas, SDG&E, Edison, and other participants in these proceedings to turn their time and attention to other pressing matters.

V. SUPPORTING TESTIMONY

This Application is supported by the following testimony concurrently being served on each party receiving this Application:

- William Reed, Senior Vice President of Regulatory and Strategic Planning for SoCalGas and SDG&E, describes the settlement proposals and explains why Commission approval of each of the settlement proposals is consistent with sound regulatory policy;
- Stephen E. Pickett, Edison Senior Vice President and General Counsel, explains why the settlement proposals make sense for Edison and its customers;
- Paul Goldstein, SoCalGas Manager – Gas Trading, describes the annual procurement planning process and cost savings after a combination of the utility core procurement functions;

- Jan Van Lierop, SoCalGas Director – Gas Acquisition, describes the proposed core balancing rules, monthly core storage targets, and the exclusion of hedges during the winter period from the utilities' incentive mechanism;
- Donna Hadley, SDG&E Manager – Gas Procurement, describes the phase-out of SDG&E's Gas Procurement PBR upon consolidation, and the separation of SDG&E's core and UEG gas procurement functions;
- Kai Chen, SoCalGas Principal Regulatory Economics Advisor, describes the changes to transportation rates for core procurement customers that will result from the combination of the procurement function and assets;
- Rodger Schwecke, SoCalGas Pipeline Products Manager, describes the proposed changes to gas operations and scheduling, and the costs and timing for implementation of those changes;
- Steven Watson, SoCalGas Capacity Products Staff Manager, describes the proposed changes to SoCalGas' unbundled storage program, and the proposed enhancements to SoCalGas' existing rules regarding storage infrastructure development;
- Thanathep Trinooson, SoCalGas Senior Engineer, describes the operation of the Southern Transmission system and the need for a minimum flow requirement, and the system expansion studies SDG&E and SoCalGas will be performing for points of interconnection with upstream suppliers, the backbone transmission system, and storage facilities; and
- Reginald Austria, SoCalGas Regulatory Accounts Manager, describes the changes to regulatory accounts needed to implement all the provisions of the settlements, including changes associated with implementation of a single gas portfolio for SoCalGas and SDG&E, and a description of the calculation of the Weighted Average Cost of Gas used to allocate costs for regulatory accounting purposes.

These witnesses are also providing, in redline format, the revised tariff language needed to implement each of Applicant's proposals.

VI. RELIEF SOUGHT

The relief sought by Applicants in this Application is: (1) approval of each of the proposed changes to the operational practices and services offered by SoCalGas and SDG&E; (2) closure of the Border Price Spike Investigation, I.02-11-040, and the Sempra-specific investigation of the activities of Sempra Energy affiliates, I.03-02-033; and (3) a determination that the SoCalGas GCIM and SDG&E Gas Procurement PBR rewards issued in D.03-08-065, D.03-08-064, D.04-02-060, D.05-04-003, and Resolution G-3341 are no longer subject to refund or adjustment as determined in the Border Price OII proceeding.

VII. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Category, Need for Hearing, Issues, and Schedule - Rule 6(a)(1)

Applicants propose that this proceeding be categorized as "ratesetting" because their proposals will have a future effect on the rates of SoCalGas and SDG&E. Applicants do not believe that hearings are necessary and all proposals can be handled through testimony and briefing. Once interested parties have an opportunity to respond to this Application and supporting testimony the Commission will be able to conclude whether hearings are required.

The issues to be considered in this proceeding are: (1) whether the Commission should adopt the changes to SoCalGas' and SDG&E's operations and service offerings proposed by this Application; (2) whether the Commission should close the Border Price Spike Investigation, I.02-11-040, and the Sempra-specific investigation of the activities of Sempra Energy affiliates, I.03-02-033; and (3) whether the Commission should determine that the SoCalGas GCIM and SDG&E Gas Procurement PBR rewards issued in D.03-08-065, D.03-08-064, D.04-02-060, D.05-04-003, and Resolution G-3341 are no longer subject to refund or adjustment as determined in the Border Price OII proceeding.

Applicants propose the following schedule, assuming no hearings are necessary:

EVENT	**DATE**
Application	August 28, 2006
Responses	September 11, 2006
Initial Prehearing Conference	September 20, 2006
Intervenor Testimony on Disputed Proposals	September 30, 2006
Rebuttal Testimony	October 10, 2007
Opening Briefs	October 17, 2006
Reply Briefs	October 24, 2006
Proposed Decision	November 14, 2006
Commission Decision	December 14, 2006

B. Authority - Rule 15

This Application is made pursuant to Sections 451, 454, 489, 491, 701, 728, and 729 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission.

C. Corporate information and Correspondence - Rules 15(a) and 15(b)

SoCalGas is a public utility organized and existing under the laws of the State of California. SoCalGas' principal place of business and mailing address is 555 West Fifth Street, Los Angeles, California, 90013.

SDG&E is a public utility organized and corporation organized existing under the laws of the State of California. SDG&E's principal place of business is 8306 Century Park Court, San Diego, California, 92123.

Edison is a public utility organized and corporation organized existing under the laws of the State of California. Edison's principal place of business is 2244 Walnut Grove Avenue, Rosemead, California, 91770.

All correspondence and communications to SoCalGas and SDG&E regarding this Application should be addressed to:

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D. Articles of Incorporation - Rule 16(a)

SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with Application No. 98-10-012, and these articles are incorporated herein by reference. SDG&E previously filed a certified copy of its Restated Articles of Incorporation with Application No. 97-12-012, and these articles are incorporated herein by reference.

A copy of Edison's Certificate of Restated Articles of Incorporation, effective on March 2, 2006, and as presently in effect, certified by the California Secretary of State, was filed with the Commission on March 14, 2006, in connection with Application No. 06-03-020. Application No. 06-03-020, filed March 14, 2006, regarding early approval of transfer of Anaheim's share of SONGS 2&3 to Edison, is by reference made a part hereof pursuant to Commission Rule 16.

E. Balance Sheet and Income Statement – Rule 23(a)

Attachment A to this Application is SoCalGas' Balance Sheet as of June 30, 2006, and SoCalGas' Income Statement for the six-month period ended June 30, 2006. Attachment B to this Application is SDG&E's Balance Sheet as of June 30, 2006, and SDG&E's Income Statement for the six-month period ended June 30, 2006.

F. Rates - Rules 23(b) and 23(c)

The rate changes for SoCalGas and SDG&E that will result from this Application are described in Appendix D and E to the attached testimony of Kai Chen.

G. Property and Equipment - Rule 23(d)

A general description of SoCalGas' property and equipment was previously filed with the Commission on May 31, 2004, in connection with SoCalGas' Application No. 04-05-008 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto is Attachment C to this Application.

A general description of SDG&E's property and equipment was previously filed with the Commission on October 5, 2001, in connection with SDG&E's Application No. 01-10-005 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto is Attachment D to this Application.

H. Summary of Earnings - Rules 23(e) and 23(f)

Attachment E to this Application is a SoCalGas Summary of Earnings for the six months ended June 30, 2006. Attachment F to this Application is a SDG&E Summary of Earnings for the six months ended June 30, 2006.

I. Exhibits and Readiness - Rule 23(g)

Applicants are concurrently serving supporting testimony with this Application, and are ready to proceed with their showing.

J. Depreciation - Rule 23(h)

For financial statement purposes, depreciation of utility plant for both SDG&E and SoCalGas has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SDG&E and SoCalGas generally compute depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SDG&E and SoCalGas have computed their tax depreciation using the Accelerated Cost Recovery System. For years after 1986, SDG&E and SoCalGas have computed their tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, have normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

K. Proxy Statement - Rule 23(i)

SoCalGas' latest proxy statement was filed with the Commission on June 15, 2006, in connection with A.06-06-017, and is incorporated herein by reference. A copy of SDG&E's latest proxy statement is Attachment G to this Application.

L. Pass Through of Costs - Rule 23(l)

The rate changes sought by Applicants in this Application would not simply pass through to customers of SoCalGas and SDG&E only increased costs to SoCalGas and SDG&E for services and commodities furnished by them.

M. Service and Notice - Rule 24

SoCalGas and SDG&E are serving this Application on all parties to R.04-01-025, I.02-11-040, I.03.02-033, A.01-06-027, A.02-06-035, A.03-06-021, A.04-12-004, A.04-06-025, and A.05-06-030. Within ten days of filing, SoCalGas and SDG&E will mail notice of this Application to the State of California and to cities and counties served by SoCalGas and SDG&E, and SoCalGas and SDG&E will post the notice in their offices and publish the notice in newspapers of general circulation in each county in their service territory. In addition, SoCalGas and SDG&E will include notices with the regular bills mailed to all customers affected by the proposed rate changes.

DATED at Los Angeles, California, this 25th day of August, 2006.

Respectfully submitted,

SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY

By:______________________________
William L. Reed
Senior Vice President
Regulatory and Strategic Planning

SOUTHERN CALIFORNIA EDISON COMPANY

By:______________________________
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VERIFICATION

I am an officer of Southern California Gas Company and San Diego Gas and Electric Company and am authorized to make this verification on its behalf. The matters stated in the foregoing Application are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 25th day of August, 2006, at Los Angeles, California.

____

William L. Reed
Senior Vice President
Regulatory Affairs and Strategic Planning

VERIFICATION

I am an officer of Southern California Edison Company and am authorized to make this verification on its behalf. The matters stated in the foregoing Application are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 25th day of August, 2006, at Rosemead, California.

____

John R. Fielder
President

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA EDISON COMPANY (U 338 E) FOR APPROVAL OF CHANGES TO NATURAL GAS OPERATIONS AND SERVICE OFFERINGS** on all known interested parties of record in R.04-01-025, I.02-11-040, I.03.02-033, A.01-06-027, A.02-06-035, A.03-06-021, A.04-12-004, A.04-06-025, and A.05-06-030 by electronic mail a copy to all parties included on the list appended to the original document filed with the Commission.

Dated at Los Angeles, California this 28th day of August, 2006.

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Rosemarie Rodriguez