PRELIMINARY STATEMENT
PART XI
PERFORMANCE BASED REGULATION

(Continued)

I. CORE PRICING FLEXIBILITY (Continued)

2. Class Average Long Run Marginal Cost (LRMC) Floor Rates

a. D.98-01-040, Finding of Fact No. 5, allows SoCalGas the option to discount core transportation rates down to a LRMC floor rate; however, SoCalGas may not discount the cost of gas. For this program, the LRMC floor rate includes the following components: customer related, medium-pressure distribution, high-pressure distribution, transmission, seasonal storage, load balancing, company use transmission, unaccounted for gas, and interstate pipeline demand charges. In addition to these components, the full transportation rate includes the following components: non-marginal costs in base margin, ITCS, PITCO/POPCO transition costs, core averaging costs, and other exclusion costs.

b. The following table lists the full LRMC transportation rates authorized by D.97-04-082, and the class average LRMC floor rates authorized by D.98-01-040. LRMC Floor Rates were updated with new values established in D.00-04-060, D.01-12-018, and SoCalGas Advice No. 3940, effective January 1, 2009. Full Transportation Rates are updated with new values established in D.00-04-060, Resolution G-3303, D.01-12-018, D.06-12-031, Resolution G-3407 and SoCalGas Advice No. 3940, effective January 1, 2009. The floor rates represent the lowest possible average annual rate by class under which SoCalGas can serve gas. These rates represent a starting point for the program and, pursuant to Commission order, may be modified in future rate proceedings. T T T

Class	Full Transportation Rate	LRMC Floor Rate	
Residential	45.5 cents/therm	23.3 cents/therm	I
G-10, 0 to 3 Mth	76.0 cents/therm	36.2 cents/therm	|
G-10, 3-50 Mth	27.8 cents/therm	10.8 cents/therm	|
G-10, 50-250 Mth	19.4 cents/therm	6.5 cents/therm	|
G-10, >250Mth	10.3 cents/therm	4.2 cents/therm	|
Gas A/C	14.0 cents/therm	5.7 cents/therm	I
Gas Engines	11.6 cents/therm	4.4 cents/therm	R
NGV	xx.x cents/therm	x.x cents/therm	

c. Optional tariffs or negotiated rate contracts that would result in average annual rates below class average LRMC will be subject to Commission approval through the Expedited Application Docket (EAD) process.

d. With prior Commission approval under the EAD process, SoCalGas may discount average annual rates to a floor of customer-specific LRMC that includes the full interstate pipeline reservation charges allocated to core customers (excluding ITCS).

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PRELIMINARY STATEMENT
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PERFORMANCE BASED REGULATION

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(Continued)

J. TRI~~BI~~ENNIAL COST ALLOCATION PROCEEDING (T~~B~~CAP)

1. The T~~B~~CAP is the proceeding by which the Commission authorizes the level and allocation of SoCalGas' revenue requirement including regulatory account balances among customer classes for those items not included in the PBR Mechanism. ~~SoCalGas' BCAP application will be filed every other year pursuant to D.94-07-064 (Global Settlement).~~ SoCalGas filed its 1999 BCAP application in October of 1998. Pursuant to D.00-04-060, the 1999 BCAP rates are effective June 1, 2000~~ and continue in effect through December 31, 2002~~.

~~2. In non-BCAP years, SoCalGas will file an advice letter on or before October 15 to update the regulatory account amortization components of rates.~~

2~~3~~. Noncore Competitive Load Growth Opportunities - Revenue Treatment

a. Overview

1) D.00-04-060 (Finding of Fact Number 9.q.) authorizes SoCalGas, at its option, to exclude from future cost allocations the expanded load that results from two situations:

a) New negotiated rate contracts that are part of a California Red Team economic development effort.

b) Contracts where Rule 38 shareholder funding has been used.

Under this arrangement, the volumes and revenues from these situations will not be included in determining noncore commercial and industrial revenue requirements.

2) The total volume that can qualify for treatment under this program is capped at 5% of the most recently adopted volume adopted for noncore commercial and industrial throughput in the most recent cost allocation proceeding.

3) Customers with contracts qualifying for this treatment are still eligible for service under their otherwise applicable tariff rate schedule.

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PERFORMANCE BASED REGULATION
(Continued)

J. TRI~~BI~~ENNIAL COST ALLOCATION PROCEEDING (T~~B~~CAP) (Continued)

~~3~~2. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

a. Overview (continued)

4) To ensure that ratepayers are isolated from any risk of revenue shortfall that may result from SoCalGas excluding these noncore volumes from other noncore volumes, SoCalGas has instituted a Noncore Fixed Cost Account (NFCA) adjustment mechanism. This mechanism ensures that the NFCA records the revenues equal to those expected absent any special treatment under this program.

5) SoCalGas will submit documentation on the results of its competitive Load Growth revenue program activity in its annual PBR Report filing.

6) Contracts qualifying under this program are subject to change by the Commission as authorized by General Order 96-B, Industry Rule 7.1.

b. Contract Terms

1) Contract terms will be as negotiated between SoCalGas and the customer. Negotiated rates cannot be less than adopted short run marginal costs.

2) Contracts involving Rule 38 incentives will be assumed to run for five years, unless stated otherwise in the Contract. Contracts involving California Red Team will be as negotiated. If no term is set, the contract will be assumed to run for five years.

3) SoCalGas may, at its option, file an application with the Commission requesting that a contract receive treatment under this program for a period beyond five years.

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PRELIMINARY STATEMENT
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PERFORMANCE BASED REGULATION

(Continued)

J. TRI~~BI~~ENNIAL COST ALLOCATION PROCEEDING (T~~B~~CAP) (Continued)

2~~3~~. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

c. Customers

1) Any load associated with a noncore commercial and industrial customer is eligible under this program.

2) Contracts not qualifying for this regulatory treatment are:

a) An existing customer that could economically connect to a bypass pipeline.

b) A new customer (no recorded usage in the previous 12 months) in close proximity to a bypass pipeline.

c) A customer who previously received discounts to prevent fuel switching to a petroleum distillate fuel.

3) SoCalGas shall determine which contracts to include in this program, subject to review by the Commission.

4) A new customer will have a baseload volume of zero.

5) If new equipment is installed at a customer site under a contract qualifying for this program, and the equipment is separately metered, then only the metered volumes and revenues will receive treatment under this program.

6) If the new load is not separately metered, then base load volumes will be calculated as the average annual volume over the previous 24 months. If there are unusual characteristics that would cause the customer's 24 month history to be unrepresentative of average annual expected throughput, SoCalGas will select a different period of time that is more representative.

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PRELIMINARY STATEMENT
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(Continued)

J. TRI~~BI~~ENNIAL COST ALLOCATION PROCEEDING (T~~B~~CAP) (Continued)

2~~3~~. Noncore Competitive Load Growth Opportunities - Revenue Treatment (Continued)

d) Regulatory Requirements

1) At the end of every calendar year, SoCalGas shall file with the Commission a confidential report showing a summary of activity under this program. The report will show the number of qualifying contracts, qualifying volumes, revenues received for qualifying volumes, and amounts credited to ratepayers for baseload volumes.

2) Customers must sign an affidavit attesting that the contract structure (in case of Red Team contracts) or the incentives (in case of Rule 38) were a material factor in the customer's decision to participate.

3) SoCalGas shall track all volumes that qualify under this program. These volumes will be excluded from forecasts adopted for cost allocation purposes for a period of five years after the start of each contract.

4) Revenues from customers and contracts qualifying under this are separated into two components:

a) Baseload revenues, calculated as the applicable baseload volumes times the otherwise applicable tariff.

b) Load growth related revenues, calculated as total revenues received from the customer minus baseload revenues.

Base load revenues will be credited to the Noncore Fixed Cost Account. Load Growth Related Revenues will be credited to the shareholder.

5) SoCalGas will track any contract specific costs incurred to support volumes qualifying under this program. Any costs incurred for separate metering, service lines, regulators, main extensions, etc. to serve specific locations that qualify under this program would be tracked. As long as the contract volumes are exempt from inclusion in cost allocation proceedings, these costs will not be included in the authorized utility revenue requirement.