

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of )  
Southern California Gas Company (U 904 G) )  
Regarding Year 15 (2008-2009) of Its )      Application 09-06-\_\_\_\_\_  
Gas Cost Incentive Mechanism )  
\_\_\_\_\_)

**APPLICATION OF  
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G)  
REGARDING YEAR 15 (2008-2009)  
OF ITS GAS COST INCENTIVE MECHANISM**

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Southern California Gas Company (“SoCalGas”) hereby submits its fifteenth annual application (“Application”) under the Gas Cost Incentive Mechanism (“GCIM”). The Commission established the GCIM in Decision (“D.”) 94-03-076, modified and extended it in D.97-06-061, extended it on an annual basis beginning with Year 6 in D. 98-12-057, and further modified and extended it on an annual basis beginning in Year 8 in D.02-06-023.<sup>1</sup> Pursuant to these decisions and SoCalGas’ Tariff Preliminary Statement Part VIII, Gas Cost Incentive Mechanism, SoCalGas is to file an application and report in June of each year to address its performance under the GCIM for the previous April 1 through March 31, period (“GCIM Year”).

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<sup>1</sup> Pursuant to D.02-06-023, the GCIM will continue on an annual basis until the Commission modifies or terminates it after giving interested parties notice and an opportunity to be heard. See D.02-06-023, *mimeo.*, at 16, 21-22, and p.1 of Attachment A.

In this Application, SoCalGas provides its report on gas supply and storage operations for the twelve-month GCIM year ending March 31, 2009 (“Year 15”), and submits its request for Commission approval of a shareholder reward of \$12,047,955 for its Year 15 performance. SoCalGas’ Year 15 Annual Report is Attachment A to this Application.

## **I. BACKGROUND**

### **A. Establishment of the GCIM**

On March 16, 1994, the Commission approved SoCalGas’ A.93-10-034 implementing a new method by which the Commission oversees the reasonableness of gas purchases and gas storage decisions made by SoCalGas on behalf of core sales customers (D.94-03-076). The Commission initially established a three-year experimental GCIM program beginning April 1, 1994. As stated in D.94-03-076, the GCIM program originally consisted of two separate elements, one that measured performance for gas procurement efforts and the other that measures performance for efficient gas storage operations for the core class. The original GCIM affected approximately 75 percent of SoCalGas’ total gas purchases.

The original GCIM established a benchmark against which to measure the price SoCalGas pays for core and core subscription gas supply. The benchmark was based on a combination of monthly gas price indices published in Natural Gas Intelligence, Inside FERC Gas Market Report, and a New York Mercantile Exchange (“NYMEX”) component for gas futures. The GCIM proposal included a “tolerance band” to allow SoCalGas to meet objectives related to service reliability and supply security. The approved tolerance band was initially established at four and one-half percent during the first year of the GCIM and four percent for the subsequent two years.

In establishing the GCIM in D.94-03-076, the Commission ordered the Commission Advisory and Compliance Division (“CACD”) to conduct an evaluation of the GCIM by August 1, 1996, to provide the Commission with guidance regarding the success or failure of the program prior to its three-year completion. The Division of Ratepayer Advocates (“DRA”) was given the task of auditing SoCalGas’ annual reports on the GCIM.

In D.02-06-023, the Commission approved a Settlement Agreement executed in July of 2001 by SoCalGas, the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”). The Settlement Agreement extends the GCIM on an annual basis into Year 8 and beyond, until such time as the Commission approves -- after giving the parties notice and an opportunity to be heard -- a request for modification to or termination of the GCIM.

#### **B. GCIM Year 1**

Consistent with D.94-03-076, SoCalGas filed its first annual GCIM report on June 22, 1995 (A.95-06-043). A.95-06-043 outlined the performance for SoCalGas during GCIM Year 1 and proposed six modifications to the GCIM. DRA conducted its audit of SoCalGas’ report opposing only two of the proposed modifications. SoCalGas settled with DRA in agreeing on four of the six proposed modifications, and the Commission granted SoCalGas its requested shareholder award.

#### **C. GCIM Year 2**

On June 17, 1996, SoCalGas filed A.96-06-029 reporting on its gas supply and storage operations during Year 2. The deadline set in D.94-03-076 for the CACD, or its successor the Energy Division, to file an evaluation report passed on August 1, 1996.

On February 13, 1997, SoCalGas and ORA filed a Joint Motion for order adopting Stipulation and Agreement, Suspending Procedural Schedule, Waiving Oral hearings, Limited

Consolidation of Indicated Docket, and for Other Relief. Among other things, the Stipulation and Agreement resolved all issues related to the Year 2 application, proposed to replace the four percent tolerance band with a tolerance band of two percent above and one-half percent below the benchmark, and provided for revisions to, and extension of, the GCIM program on an annual basis beyond the original expiration date of March 31, 1997.

In D.97-06-061, the Commission adopted the joint recommendation of ORA and SoCalGas with one modification. The sole modification was to limit the current extension of the GCIM to a two-year term ending March 31, 1999, "in order for the Commission to revisit this program, if it chooses, as part of its gas strategy."<sup>2</sup>

#### **D. GCIM Year 3**

On June 16, 1997, SoCalGas filed its Year 3 report. That filing was reviewed and accepted without modification by ORA on December 5, 1997, and approved without hearings, by the Commission in D.98-06-024.

#### **E. GCIM Year 4**

On June 18, 1998, SoCalGas filed its Year 4 report. That filing was also reviewed and accepted without modification by ORA and approved by the Commission, without hearings, in D.98-12-057. The Commission stated in Ordering Paragraph 2 of D.98-12-057 that:

SoCalGas' GCIM is extended on an annual basis for 12-month cycles, beginning in Year 6, the period April 1, 1999 through March 31, 2000, unless the mechanism is modified or discontinued by order of the Commission.

#### **F. GCIM Year 5**

On June 15, 1999, SoCalGas filed its Year 5 report in A. 99-06-027, which was reviewed and approved without modification by ORA and was approved, without hearings, in D.00-06-

039. In D.00-06-039, the Commission did not order modifications to or termination of the GCIM, but did order the Energy Division to conduct an evaluation of the GCIM before the Commission would consider modifications to the GCIM, including whether to extend or terminate the mechanism.

#### **G. GCIM Year 6**

On June 15, 2000, SoCalGas filed its Year 6 report in A.00-06-023. On October 30, 2000, ORA issued its Monitoring and Evaluation Report of A.00-06-023, which “verified that the Commission approved sharing mechanism results in a \$14.4 million benefit to ratepayers and a shareholder reward of \$9.8 million.” In its report, ORA supported the continuation of the GCIM into Year 7 and recommended the continuation of the GCIM program into Year 8 with two refinements to the mechanism.<sup>3</sup> Pursuant to D.00-06-039, on January 4, 2001, the Energy Division issued a comprehensive 37-page analysis of the history, function, and results of the GCIM. In its analysis, the Energy Division concluded that gas purchases made by SoCalGas under the GCIM “are definitely far more favorable to ratepayers than those made when reasonableness reviews were in effect.”<sup>4</sup> The Energy Division noted that “the GCIM has achieved the Commission’s goals for the GCIM,” and recommended that the GCIM be continued, explaining that “the GCIM is superior to various alternatives, such as traditional reasonableness reviews, elimination of SoCalGas from the gas procurement function, or inclusion of gas procurement costs in an overall performance-based ratemaking mechanism.”<sup>5</sup> In D.01-05-002, the Commission approved, without hearings, SoCalGas’ GCIM award for its Year

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<sup>2</sup> D.97-06-061, mimeo., at 1.

<sup>3</sup> The two refinements to the GCIM for Year Eight were: 1) the modification of the lower tolerance band from the current 0.5% to 1.0%, and 2) replace the NYMEX benchmark with published (daily or weekly) indices with a set 25% weighting. ORA GCIM Year 6 Monitoring and Evaluation Report, pg. 1-4 dated October 30, 2000.

<sup>4</sup> Energy Division Analysis at 20; see also D.02-06-023, mimeo., at 5 referencing the analysis.

<sup>5</sup> Energy Division Report of the SoCalGas GCIM, page 1, dated January 4, 2001.

6 performance and opened Phase 2 of A.00-06-023 to address whether the GCIM should be extended with or without modification.

In D.02-06-023 the Commission approved a settlement agreement among SoCalGas, ORA, and TURN, which extended and made the following changes to SoCalGas' GCIM:

1. Elimination of the NYMEX Program as a benchmark index, beginning in Year 8.
2. Shareholder awards will be capped at 1.5 percent of the actual annual gas commodity cost.
3. The sharing bands below the benchmark will be:

<b><u>Sharing Band</u></b>	<b><u>Ratepayer%</u></b>	<b><u>Shareholder%</u></b>
0.0%-1.00%	100%	0%
1.00%-5.00%	75%	25%
5.00% & Above	90%	10%

Pursuant to D.02-06-023, SoCalGas' GCIM will continue on an annual basis until further modified or terminated upon Commission order.<sup>6</sup>

#### **H. GCIM Year 7**

On June 15, 2001, SoCalGas filed its Year 7 GCIM report in A.01-06-027, seeking a shareholder award of \$106.1 million. Year 7 represented an extremely volatile year in gas prices, compounded by unusually cold weather, higher wholesale electric prices, lower hydroelectric generation in the Pacific Northwest, higher electric generation demand, and lower throughput on the El Paso Natural Gas Company interstate pipeline system due to a system rupture. Despite all of these factors, SoCalGas was able to effectively manage its assets to the benefit of core ratepayers, resulting in gas for the core being purchased at an average price of \$5.16 per MMBtu -- well below the benchmark of \$5.72 per MMBtu.

Pursuant to the Settlement Agreement adopted in D.02-06-023, SoCalGas retroactively applied its new 1.5% commodity cost cap, and reduced its proposed GCIM Year 7 shareholder

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<sup>6</sup> D.02-06-023, mimeo, at 25-26 and page 1 of Attachment A (the settlement agreement).

award from \$106.1 million to \$30.8 million. The Commission approved SoCalGas' revised \$30.8 million GCIM Year 7 shareholder award request in D.03-08-065.

### **I. GCIM Year 8**

SoCalGas filed A.02-06-035 on June 17, 2002, requesting an authorized shareholder award of \$17.4 million for GCIM Year 8, an amount that also reflected the retroactive application of the new 1.5% commodity cost cap on shareholder awards. In GCIM Year 8, California continued to experience a volatile natural gas market. Despite this volatility, the GCIM continued to provide SoCalGas' core customers with reliable natural gas supplies at below market cost. SoCalGas realized an average gas cost of \$3.13 per MMBtu, \$0.51 per MMBtu below the benchmark price of \$3.64 per MMBtu. The Commission approved SoCalGas' \$17.4 million GCIM Year 8 shareholder award request in D.03-08-064.

### **J. GCIM Year 9**

SoCalGas filed A.03-06-021 on June 16, 2003 summarizing its GCIM Year 9 activities and requesting an authorized shareholder award of \$6.3 million. While Year 9 provided more stability to the gas market than in the two preceding years, California's natural gas market continued to be very dynamic. Despite these changing conditions, SoCalGas' core customers continued to receive reliable natural gas supplies at \$39 million below market cost. The Commission approved SoCalGas' \$6.3 million GCIM Year 9 shareholder award request in D.04-02-060.

### **K. GCIM Year 10**

SoCalGas filed A.04-06-025 on June 15, 2004, summarizing its GCIM Year 10 activities and requesting a GCIM Year 10 shareholder award of \$2.4 million. During GCIM Year 10, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$27

million below market cost.<sup>7</sup> The Commission approved SoCalGas' \$2.4 million GCIM Year 10 shareholder award request in D.05-04-003.

#### **L. GCIM Year 11**

A.05-06-030 was filed on June 15, 2005, which requested a GCIM shareholder award of \$2.5 million for Year 11. SoCalGas provided natural gas supplies to its core customers at \$31.4 million below the benchmark during GCIM Year 11. On November 30, 2005, ORA issued its GCIM Year 11 Monitoring and Evaluation Report which concurred with SoCalGas' proposed shareholder award of \$2.5 million, but also recommended two modifications to the GCIM mechanism.<sup>8</sup>

1. SoCalGas should inject gas into storage on a uniform ratable basis during the injection months.
2. SoCalGas should meet a strict minimum of 70 Bcf inventory level in storage by November 1.

On February 17, 2006, DRA (formerly "ORA"), TURN, and SoCalGas filed a Joint Recommendation which resolved the concerns raised by DRA in its Monitoring and Evaluation Report. Specifically, the Joint Recommendation proposed the following changes to the GCIM:

- The core's October 31 physical inventory storage target will change from 70 Bcf +5/-5 Bcf to 70 Bcf +5/-2 Bcf. This core physical inventory does not include any net park and net loan positions.
- If additional storage inventory capacity is allocated to SoCalGas' core beyond 70 Bcf, core's October 31 physical inventory storage target will be increased by that amount.
- SoCalGas must obtain the consent of DRA and TURN to rely upon its existing secondary storage target.
- Unless otherwise agreed to by DRA and TURN, SoCalGas must have a minimum core-purchased inventory of 49 Bcf on July 31, 2006. This target may include net loan positions.
- For the years beyond 2006, SoCalGas will obtain agreement from DRA and TURN for

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<sup>7</sup> D.05-04-003, page 3.

<sup>8</sup> ORA GCIM Year 11 Monitoring and Evaluation Report, page 1-2.

mid-season core-purchased inventory target(s) which must be met unless otherwise agreed to by DRA and TURN. Each of these changes would be reflected in SoCalGas' GCIM tariff.

The Joint Recommendation of DRA, TURN, and SoCalGas was adopted by the Commission in D.06-10-029 along with SoCalGas' requested shareholder award for Year 11 of \$2.5M.<sup>9</sup>

#### **M. GCIM Year 12**

SoCalGas filed A.06-06-017 on June 15, 2006 and requested a GCIM shareholder award of \$9.8 million for Year 12. During GCIM Year 12, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$69.1 million below market cost. In October 2006, DRA issued its Monitoring and Evaluation Report for GCIM Year 12 and recommended approval of SoCalGas' requested shareholder award. The Commission approved SoCalGas' \$9.8 million GCIM Year 12 shareholder award request in D.07-11-005.

#### **N. GCIM Year 13**

SoCalGas filed A.07-06-021 on June 15, 2007 and requested a GCIM shareholder award of \$8.9 million for Year 13. During GCIM Year 13, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$57.7 million below benchmark cost. In October 2007, DRA issued its Monitoring and Evaluation Report for GCIM Year 13 and recommended approval of SoCalGas' requested shareholder award. A.07-06-021 was approved by the Commission on January 31, 2008 (D.08-01-035), finding that SoCalGas reasonably managed its gas acquisition and operations in Year 13 within the context of the GCIM that existed at the

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<sup>9</sup> As with GCIM Yr 7, Yr 8, Yr 9, and Yr 10 shareholder awards granted by the Commission, this GCIM Yr 11 award was made subject to refund or adjustment, as may be determined in I.02-11-040. However, in D.06-12-034, the Commission closed I.02-11-040 with prejudice and terminated the conditions imposed upon these GCIM shareholder awards.

time, and that the calculation and amount of the shareholder award is correct pursuant to the GCIM modifications adopted in D.02-06-023.

#### **O. GCIM Year 14**

SoCalGas filed A.08-06-016 on June 16, 2008, requesting a GCIM shareholder award of \$6.5 million for Year 14. During GCIM Year 14, SoCalGas continued to provide its core customers with reliable natural gas supplies, at \$50.1 million below benchmark cost. In November 2008, DRA issued its Monitoring and Evaluation Report for GCIM Year 14 and recommended approval of SoCalGas' requested shareholder award. In February 2009 the Commission issued D.09-02-005, approving A.08-06-016 and SoCalGas' requested shareholder award of \$6.5 million.

#### **II. PURPOSE OF APPLICATION AND RELIEF SOUGHT**

The purpose of this Application is to request a GCIM shareholder reward of \$12,047,955 for SoCalGas' performance in Year 15 pursuant to the revised GCIM established by D.02-06-023. As documented in Attachment A, in Year 15, SoCalGas was able to purchase gas at \$75.6 million below the GCIM benchmark. The actual cost of all purchases by SoCalGas subject to the GCIM was \$2,818,571,496 while the benchmark cost was \$2,894,131,587. Pursuant to the revisions to the GCIM adopted in D.02-06-023, if the Commission determines that these figures are accurate, SoCalGas will be entitled to a shareholder reward of \$12,047,955.

The relief sought by SoCalGas in this Application is a GCIM Year 15 shareholder award of \$12,047,955.

### **III. STATUTORY AND PROCEDURAL REQUIREMENTS**

#### **A. Category, Need for Hearing, Issues, and Schedule – Rule 2.1(c)**

SoCalGas proposes that this proceeding be categorized as “ratesetting” because SoCalGas’ proposals will have a future effect on rates. SoCalGas does not believe that a hearing is necessary. Given the record that has already been developed in other Commission proceedings, and given the GCIM settlement adopted by the Commission in D.02-06-023, SoCalGas does not believe that its proposals in this proceeding will raise any issues of fact that will require a hearing.

The issue to be considered in this proceeding is whether SoCalGas should be awarded the GCIM Year 15 shareholder award of \$12,047,955 it has requested.

SoCalGas proposes the following schedule for this Application:

<b><u>EVENT</u></b>	<b><u>DATE</u></b>
SoCalGas files Application	June 15, 2009
Deadline for responses to Application	July 15, 2009
Prehearing Conference	August 17, 2009
DRA Report	October 16, 2009
Proposed Decision	January 2010
Commission Decision	February 2010

#### **B. Authority – Rule 2.1**

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, including D.02-06-023.

**C. Corporate Information and Correspondence – Rule 2.1(a) and (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. All correspondence and communications regarding this Application should be addressed to:

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Regulatory Case Manager for  
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**D. Request for Ex Parte Approval – Rule 2.1 (c)**

The Commission is familiar with SoCalGas' GCIM and the limited issues presented by this Application. SoCalGas believes that the information provided by this Application and accompanying Year 15 Report will be a sufficient basis for the Commission to reach a decision without hearings. Accordingly, SoCalGas respectfully requests that the Commission approve this Application expeditiously, and without evidentiary hearings.

**E. Articles of Incorporation – Rule 2.2**

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.

**F. Balance Sheet and Income Statement – Rule 3.2(a)(1)**

Attachment B to this Application is SoCalGas' Balance Sheet as of March 31, 2009.

Attachment C to this Application is SoCalGas' Income Statement for the three-month period ended March 31, 2009.

**G. Rates – Rule 3.2(a)(2) and (3)**

The rate changes that will result from this Application are described in Attachment D.

**H. Property and Equipment – Rule 3.2(a)(4)**

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 account of the original cost and depreciation reserve attributable thereto is attached to the Application as Attachment E.

**I. Summary of Earnings – Rules 3.2(a) (5) and (6)**

Attachment F to this Application is a Summary of Earnings for the 3 months ended March 31, 2009.

**J. Exhibits and Readiness – Rule 3.2**

SoCalGas' GCIM Year 15 Annual Report accompanies this Application. SoCalGas is now ready to proceed with its showing.

**K. Depreciation – Rule 3.2(a)(7)**

For financial statement purposes, SoCalGas has computed depreciation of utility plants on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas generally computes 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 property

additions after 1954 and prior to 1981. For financial reporting and rate purposes, "flow through accounting" has been adopted for such properties.

For property additions in years 1981 through 1986, SoCalGas has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, the Company has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems, and, since 1982, has normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

**L. Proxy Statement – Rule 3.2(a)(8)**

A copy of SoCalGas' most recent proxy statement, dated April 17, 2009, was mailed to the California Public Utilities Commission on April 23, 2009 and is incorporated herein by reference.

**M. Pass Through of Costs – Rule 3.2(a)(10)**

The shareholder reward sought by SoCalGas in this Application would not simply pass through to customer's costs to SoCalGas for services and commodities furnished by it.

**N. Service and Notice – Rule 1.9**

SoCalGas is serving this Application on all parties to A.08-06-016. Within ten days of filing, SoCalGas will mail notice of this Application to the State of California and to cities and counties served by SoCalGas, and SoCalGas will post the notice in its offices and publish the notice in newspapers of general circulation in each county in its service territory. In addition, SoCalGas will include notices with the regular bills mailed to all customers affected by the proposed rate change.

#### **IV. CONCLUSION**

For the reasons set forth above, SoCalGas respectfully requests that the Commission approve a Year 15 GCIM shareholder award of \$12,047,955 on an expedited and ex parte basis.

Respectfully submitted,  
SOUTHERN CALIFORNIA GAS COMPANY

By: */s/ Lee Schavrien*  
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Regulatory & Finance

By: */s/ Michael R. Thorp*  
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June 15, 2009

## **VERIFICATION**

I, Lee Schavrien, am an officer of Southern California Gas Company, and I am authorized to make this verification on its behalf. The content of this Application is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true.

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

Executed on June 15, 2009, at Los Angeles, California.

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*/s/ Lee Schavrien*

Lee Schavrien  
Senior Vice President  
Regulatory & Finance

## **Attachment A**

**Southern California Gas Company**  
**Annual Report on the Gas Cost Incentive Mechanism**  
**April 1, 2008 through March 31, 2009**

**I. Summary of Year 15 GCIM Results**

This report summarizes the results of the Utility Gas Procurement Department's activities on behalf of Southern California Gas Company's (SoCalGas) and San Diego Gas and Electric's (SDG&E)<sup>1</sup> core customers under the Gas Cost Incentive Mechanism (GCIM) during the period April 1, 2008 through March 31, 2009 (Year 15). This report also requests a shareholder award under the GCIM for Year 15. The award is based on the GCIM as amended through D.02-06-023.

In GCIM Year 15, California continued to experience a dynamic natural gas market. Despite changing market conditions, SoCalGas' and SDG&E's core customers continued to receive reliable natural gas supplies at below-market cost. These results were achieved with no curtailments of service and in compliance with all requirements and guidelines established by the California Public Utilities Commission (CPUC). Table 1 below summarizes performance under the GCIM during the last 15 years, highlighting the fact that ratepayers have realized the benefit of gas purchases below the GCIM benchmark (Benchmark) in fourteen of the past 15 years. Additionally, a GCIM Summary Report for the past 15 years delineating the various GCIM components is included in Appendix A.

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<sup>1</sup> D.07-12-019 authorized the consolidation of the core portfolio for SoCalGas and SDG&E into one single portfolio managed by SoCalGas and referred to as the Utility Gas Procurement Department. See section II below.

**TABLE 1**  
**GCIM PERFORMANCE**  
Year Ended March 31

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b><u>Net Purchases (Border Volumes)</u></b>								
Million MMBtu/d	0.76	0.66	0.66	0.66	0.75	1.06	1.09	1.01
Million MMBtu	277	243	243	241	275	385	398	370
<b><u>Net Gas Cost</u></b>								
Total (\$ Millions)	\$ 445	\$ 322	\$ 530	\$ 542	\$ 520	\$ 902	\$ 2,055	\$ 1,159
Unit Cost (\$/MMBtu)	\$ 1.61	\$ 1.33	\$ 2.18	\$ 2.25	\$ 1.89	\$ 2.34	\$ 5.16	\$ 3.13
<b><u>Benchmark Gas Commodity Cost</u></b>								
Total (\$ Millions)	\$ 441	\$ 326	\$ 550	\$ 549	\$ 538	\$ 926	\$ 2,279	\$ 1,349
Unit Cost (\$/MMBtu)	\$ 1.59	\$ 1.35	\$ 2.27	\$ 2.28	\$ 1.95	\$ 2.40	\$ 5.72	\$ 3.64
<b><u>Comparison to Benchmark (\$ Millions)</u></b>								
Customer Savings	\$ (1.1)	\$ 3.2	\$ 10.6	\$ 4.8	\$ 10.4	\$ 14.4	\$ 192.8	\$ 172.4
Shareholder Award	-	\$ 3.2	\$ 10.6	\$ 2.0	\$ 7.7	\$ 9.8	\$ 30.8	\$ 17.4
<b>Total</b>	<b>\$ (1.1)</b>	<b>\$ 6.4</b>	<b>\$ 21.2</b>	<b>\$ 6.8</b>	<b>\$ 18.1</b>	<b>\$ 24.2</b>	<b>\$ 223.6</b>	<b>\$ 189.8</b>
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
<b><u>Net Purchases (Border Volumes)</u></b>								
Million MMBtu/d	1.03	1.02	1.03	1.06	1.02	1.03	1.15	0.933
Million MMBtu	376	374	375	387	372	376	418	5,111
<b><u>Net Gas Cost</u></b>								
Total (\$ Millions)	\$ 1,333	\$ 1,730	\$ 2,103	\$ 2,923	\$ 2,135	\$ 2,349	\$ 2,661	\$ 21,708
Unit Cost (\$/MMBtu)	\$ 3.55	\$ 4.63	\$ 5.61	\$ 7.54	\$ 5.74	\$ 6.25	\$ 6.36	\$ 4.25
<b><u>Benchmark Gas Commodity Cost</u></b>								
Total (\$ Millions)	\$ 1,373	\$ 1,757	\$ 2,134	\$ 2,992	\$ 2,192	\$ 2,399	\$ 2,737	\$ 22,543
Unit Cost (\$/MMBtu)	\$ 3.65	\$ 4.70	\$ 5.69	\$ 7.72	\$ 5.89	\$ 6.38	\$ 6.54	\$ 4.41
<b><u>Comparison to Benchmark (\$ Millions)</u></b>								
Customer Savings	\$ 32.7	\$ 24.6	\$ 28.9	\$ 59.3	\$ 48.8	\$ 43.6	\$ 63.5	\$ 708.8
Shareholder Award	\$ 6.3	\$ 2.4	\$ 2.5	\$ 9.8	\$ 8.9	\$ 6.5	\$ 12.1	\$ 130.1
<b>Total</b>	<b>\$ 39.0</b>	<b>\$ 27.0</b>	<b>\$ 31.4</b>	<b>\$ 69.1</b>	<b>\$ 57.7</b>	<b>\$ 50.1</b>	<b>\$ 75.6</b>	<b>\$ 838.9</b>

\* Years 1-3 exclude benefits related to Storage Incentive Mechanism ("SIM"), which was eliminated in Year 4.  
The SIM shareholder awards for Years 1, 2, 3 were \$103,364, \$67,645, and \$171,106 respectively.

As indicated in Table 1, the Utility Gas Procurement Department acquired gas at \$75.6 million below the Benchmark in Year 15. The Benchmark consists of a volume-weighted average of published indices for the locations where Gas Acquisition buys gas for the core customers. The Utility Gas Procurement Department's average cost was \$6.36 per MMBtu, or \$0.18 per MMBtu below the Benchmark price of \$6.54 per MMBtu.

During GCIM Year 15, the Utility Gas Procurement Department purchased 418 million MMBtus for its retail core load. The Utility Gas Procurement Department's interstate capacity rights primarily on El Paso, Transwestern, and Kern River pipeline systems enabled the core's requirements to be met largely through basin purchases rather than purchases at the California border/citygate.

## **II. Description of Gas Procurement Activities**

The Utility Gas Procurement Department's personnel have a high level of expertise in fundamental analysis, gas trading, gas transportation, risk management, and back office operations. This expertise has continually been developed over the past fourteen years of operation under the GCIM. As a result, the Utility Gas Procurement Department has been able to effectively manage gas procurement in the gas markets during Year 15, and ultimately lowering their gas costs. The GCIM encourages the Utility Gas Procurement Department to proactively lower gas costs and protect core customers from price volatility through physical and financial trades, storage, and interstate pipeline capacity.

As in the previous 14 years of the GCIM, Year 15 results continue to show that the GCIM program is successful in meeting its objectives originally established in D.90-07-065 and R.90-02-008:

- Improve the utility's incentives to operate efficiently;
- Reduce the burden of regulatory oversight, both for the regulators and the utility;
- Provide a more stable and predictable regulatory environment;
- Implement a system that is readily understandable;
- Fairly balance risk and reward for the utility, and provide positive as well as negative incentives;
- Implement a regulatory structure that allows management to focus primarily on costs and markets, rather than on CPUC proceedings; and
- Align the interests of utility shareholders with those of utility customers.

Over the past 15 years, the GCIM has increased the efficiency of regulation by reducing the burden of regulatory oversight and providing a structure that enables SoCalGas to focus on securing reliable, low-cost gas for its core customers.

During GCIM Year 15, SoCalGas implemented several revisions to its natural gas operations and services as ordered in the Omnibus Decision (D.07-12-019). These revisions included the consolidation of the core portfolios of SoCalGas and SDG&E into one single portfolio managed by SoCalGas Utility Gas Procurement Department,<sup>2</sup> the transfer of the California Energy Hub operations from SoCalGas' Gas Acquisition Department to the System Operator,<sup>3</sup> and the offering of the Utility Gas Procurement Department's own non-tariffed services,<sup>4</sup> which include parks, loans, and wheels (under Secondary Market Services Agreements), utilizing core assets. As the result of the portfolio consolidation, SDG&E transferred its core assets, including interstate capacity, to SoCalGas. The Utility Gas Procurement Department's procurement activities were conducted to achieve the primary objectives of supply security and service reliability at a low cost. These objectives were accomplished in Year 15 by:

- Ensuring that firm long-term contracts, together with readily available monthly supplies and core storage, are adequate to meet core requirements during the peak demand season (November to March). In GCIM Year 15, the Utility Gas Procurement Department maintained a gas supply portfolio primarily weighted toward long-term supply agreements (62%). Month-to-month and daily gas purchases, net of sales, accounted for 38% of the portfolio.
- Reaching its minimum core-purchased inventory of 51 Bcf on July 31, 2008<sup>5</sup>, and its October 31 core physical storage inventory target of 79 Bcf +5/-2 Bcf, in compliance with D.06-10-029 and D.07-12-019.<sup>6</sup> SoCalGas' core-purchased inventory on July 31, 2008 was 59.2 Bcf; its core physical inventory on October 31, 2008 was 79.9 Bcf (including 0.7 Bcf of Core Aggregation Transportation (CAT) volumes).
- Managing the use of the rights and assets assigned to the retail core including storage inventory, injection and withdrawal rights, and flowing supply through the use of the

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<sup>2</sup> D.07-12-019 Ordering Paragraph 4. Pursuant to the consolidation of core portfolios, a portion of SoCalGas' gas procurement costs and shareholder rewards are flowed through to SDG&E in the consolidated gas portfolio WACOG. See SDG&E Preliminary Statement, Section VIII.

<sup>3</sup> D.07-12-019 Ordering Paragraph 10

<sup>4</sup> D.07-12-019 Section 4.8.2

<sup>5</sup> D.06-10-029 adopted a joint recommendation of DRA, TURN and SoCalGas establishing a minimum core purchase inventory target on July 31, 2006. For subsequent years, SoCalGas must obtain agreement from DRA and TURN for mid-season inventory target which must be met unless otherwise agreed to by DRA and TURN. SoCalGas obtained agreement from DRA and TURN for a July 31, 2008 mid-season minimum storage target of 51 Bcf, and filed Advice Letter 3881 to reflect this target in its GCIM tariffs.

<sup>6</sup> D.06-10-029 changed the core physical storage target as of October 31 from 70 Bcf +5/-5 Bcf to 70 Bcf +5/-2 Bcf. D.07-12-019 approved storage capacity for the combined core portfolio at 79 Bcf.

California Energy Hub (CEH) through July 18, 2008, when CEH was transferred to the System Operator, and Secondary Market Services (SMS) thereafter. CEH and SMS transactions and fees are based on existing market conditions and are completed on a non-discriminatory basis. CEH and SMS transactions continued to contribute to the overall lower gas costs achieved by the Utility Gas Procurement Department by using assets not needed for core reliability.

- Making physical and financial trades on behalf of core customers to reduce retail core gas costs.
- Utilizing the Utility Gas Procurement Department's interstate and firm access rights (FAR) capacity rights to provide portfolio diversification and lower the cost of gas.

In summary, the GCIM provides an incentive for SoCalGas to efficiently use retail core's interstate pipeline and storage rights to deliver reliable, low-cost gas supplies to its retail core customers. Reliability is achieved by constructing a portfolio of natural gas supplies that is diversified by contract type, geographic region, and supplier. SoCalGas uses tools available to a typical trading organization, including purchases, sales, loans, parks, wheels, derivatives, and transportation contracts. These tools enhance SoCalGas' ability to make economic use of core assets, when not directly needed for reliability, to lower overall gas costs to its core customers.

### **Interstate Capacity**

The capacity planning range for the combined portfolio of SoCalGas and SDG&E during GCIM Year 15 was established at 1139 MMcf/d – 1366 MMcf/d. (999 MMcf/d – 1198MMcf/d for SoCalGas, pursuant to Advice Letter 3658; 140 MMcf/d – 168 MMcf/d for SDG&E pursuant to Advice Letter 1638-G, approved by the Commission on September 29, 2006, and October 6, 2006, respectively). Appendix C to this report, which identifies SoCalGas' core interstate firm capacity holdings by month for the current GCIM year and subsequent three years, shows that SoCalGas' average capacity holding of 1147 MMcf/d during Year 15 met the minimum capacity requirement for the combined portfolio.

### **Winter Hedging**

On May 29, 2008 SoCalGas filed Application A.08-05-038, seeking Commission approval and authority to implement its 2008-2009 Winter Hedging Plan for the combined portfolio of SoCalGas

and SDG&E<sup>7</sup>. The proposed program was similar to SoCalGas' winter hedging program approved by the Commission in each of the prior three winters. In D.08-09-005, the Commission approved SoCalGas' application, and authorized SoCalGas to purchase additional hedges for the combined SoCalGas/SDG&E core portfolio for the 2008-2009 winter.

SoCalGas was able to acquire hedges at a net cost of \$35.1 million, well below the \$57 million targeted expenditure authorized by the Commission, which resulted in a limited increase in core customer gas costs. Pursuant to D.08-09-005, all transactions under the approved Gas Hedging Plan have been separately identified in monthly and annual GCIM reports, and all costs and benefits associated with these transactions flowed directly to core customers, with no GCIM sharing. The Division of Ratepayer Advocates (DRA) and TURN staff were kept apprised of SoCalGas' winter hedge positions via weekly position reports and bi-weekly conference calls throughout the period. In addition, pursuant to Ordering Paragraph 7 of D.08-09-005, SoCalGas filed a report with the Commission on April 1, 2009, providing detailed information about its 2008 -2009 Winter Hedging Program and results.

### **III. GCIM Monitoring and Evaluation**

Throughout the GCIM program, SoCalGas has worked closely with the DRA to establish an efficient monitoring and timely reporting system to keep the DRA and Energy Division informed of Gas Acquisition activities. Pursuant to the confidentiality provisions of General Order 66-C and Section 583 of the Public Utilities Code, SoCalGas provides a monthly report, 60 days after the end of each month, to the DRA and Energy Division. This report includes details of:

- All gas purchases and sale transactions
- All CEH and SMS transactions
- All financial transactions
- Capacity Holding Report
- Capacity Utilization Report
- Calculations of the GCIM benefit

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<sup>7</sup> In D.07-12-019, the Commission authorized SoCalGas to engage in winter hedging for the combined portfolio outside of SoCalGas' GCIM. In accordance with this authorization, all financial transactions used by SoCalGas to hedge natural gas prices for the combined core portfolio for the period from November through March each year are to be excluded from the calculation of costs and savings allocated under the GCIM.

SoCalGas has also communicated frequently with the DRA and the Energy Division on all important Gas Acquisition issues during GCIM Year 15, including its winter hedging activities. Finally, SoCalGas has at all times operated within the CPUC's Affiliate Transaction Rules and related Remedial Measures.

#### **IV. Recommendations**

SoCalGas concludes from its Year 15 results that the GCIM continues to be a successful program that provides measurable benefits to SoCalGas and SDG&E's core customers. During Year 15, each of the CPUC established objectives for incentive regulation were met, in addition to SoCalGas' primary objectives of supply security and reliable service at low cost. SoCalGas therefore recommends that the Commission approve a GCIM Year 15 shareholder award of \$12,047,955 on an expedited and ex parte basis.

**Appendix A**

**Support Table for GCIM Activity**

**SOUTHERN CALIFORNIA GAS COMPANY**  
**APPENDIX A**  
**Summary of GCIM Results to Date**

GCIM Year	Benchmark Dollars	Actual Dollars	(Over)/Under Benchmark	Upper Tolerance Dollars *	Lower Tolerance Dollars 0.5%	Lower Tolerance Dollars 1.0%	Lower Tolerance Dollars 5.0%	Subject to Sharing**
1	\$567,448,362.30	\$568,566,019.81	\$ (1,117,657.51)	\$17,089,530.26	N/A			\$ -
2	448,713,458.73	442,313,458.73	6,400,000.00	13,058,694.40	N/A			6,400,000.00
3	680,061,509.12	658,875,669.99	21,185,839.13	22,014,553.98	N/A			21,185,839.13
4	672,131,591.15	665,307,357.07	6,824,234.08	10,977,634.41	2,744,408.60			4,079,825.48
5	649,294,620.31	631,138,278.30	18,156,342.01	10,761,347.94	2,690,337.00			15,466,005.01
6	1,061,264,614.31	1,037,113,228.11	24,151,386.20	18,527,591.62	4,631,897.91			19,519,488.29
7	2,411,105,910.49	2,187,533,957.27	223,571,953.22	45,580,915.01	N/A	22,790,457.52	113,952,287.60	200,781,495.70
8	1,480,091,362.36	1,290,296,697.89	189,794,664.47	26,979,669.81	N/A	13,489,834.90	67,449,174.52	176,304,829.57
9	1,506,037,786.25	1,467,033,460.42	39,004,325.83	27,458,163.89	N/A	13,729,081.94	68,645,409.70	25,275,243.89
10	1,892,688,525.92	1,865,659,815.59	27,028,710.33	35,140,805.34	N/A	17,570,402.67	87,852,013.34	9,458,307.66
11	2,277,899,575.12	2,246,521,572.99	31,378,002.13	42,689,291.43	N/A	21,344,645.73	106,723,228.59	10,033,356.40
12	3,126,842,589.57	3,057,709,956.84	69,132,632.73	59,836,551.77	N/A	29,918,275.86	149,591,379.39	39,214,356.87
13	2,308,210,816.08	2,250,470,332.65	57,740,483.43	43,849,019.93	N/A	21,924,509.96	109,622,549.83	35,815,973.47
14	2,513,802,466.59	2,463,728,945.05	50,073,521.54	47,972,531.01	N/A	23,986,265.50	119,931,327.53	26,087,256.04
15	2,894,131,586.73	2,818,571,495.70	75,560,091.03	54,736,538.80	N/A	27,368,269.40	136,841,347.00	48,191,821.63
	<b>\$24,489,724,775.03</b>	<b>\$23,650,840,246.41</b>	<b>\$ 838,884,528.62</b>	<b>\$476,672,839.60</b>	<b>\$10,066,643.51</b>	<b>192,121,743.48</b>	<b>960,608,717.50</b>	<b>\$ 637,813,799.14</b>

\* Upper Tolerance band of 4.5% for GCIM Year 1, 4% for Years 2 - 3, and 2% for Years 4 - 15.

\*\* For Years 4-6, GCIM Gain/(Loss) subject to sharing is the Amount Under Benchmark less the 0.5% Lower Tolerance Band. For Years 7-15, the Gain/(Loss) subject to sharing is the Amount Under Benchmark less the 1% Lower Tolerance Band, pursuant to D.02-06-023

Note: Benchmark and Actual Dollars are inclusive of all transportation costs for delivery of gas to SoCalGas' system.

**Appendix B**

**Affiliate Transactions Annual Report**

SOUTHERN CALIFORNIA GAS COMPANY

Affiliate Transactions Annual Report

2008

Response to Affiliate Transaction Reporting Requirements Section:

**C. UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 1-7:**

1. Using the format of Table II-C-1, each utility shall report any goods and/or services that the utility provided to any of its affiliated entities during the period covered by the annual report. All goods and/or services shall be reported regardless of whether or not the utility was reimbursed.
2. For purposes of this section, and section II-D, "Goods" are defined as any tangible item having economic value. Examples of "goods" include office supplies, office computers, and personal automobiles. No item shall qualify as a good if it has:
  - a) A depreciable life, for federal tax purposes, of more than 3 years, except for cars, personal computers, and office machinery<sup>1</sup>; and
  - b) A value of greater than \$20,000.

The transfer of an item of tangible property described in (a) or (b) above shall be reported under Section E ("Transfer of Tangible Asset").

3. For purposes of this section, "Services" includes any activity of economic value provided by the utility, or a company under contract to the utility, to any affiliated entity. Examples of "services" include, but are not limited to the provision of professional expertise (e.g., legal, consulting, engineering), administrative support, (e.g., data and payroll processing, arranging travel, transportation services, etc.) and general corporate management and support activities (e.g., time spent by corporate executives and employees on affiliated entity issues, investor relations, shareholder services, etc.).
4. The cost of each good and/or service that the utility provided to any of its affiliated entities shall be assigned to an appropriate Uniform System of Accounts (USOA).
5. Using the format shown, each utility shall create a table entitled (Table II-C-1), containing:
  - A set of columns by listing horizontally across the top each affiliated entity of the utility excluding, however, any affiliated entities to which the utility provided no goods and/or services during the calendar year;
  - A set of rows by listing vertically down the left side of Table II-C-1 each USOA account (listed in ascending order) for which the utility had incurred a cost (whether or not reimbursed) for providing any good or service to an affiliated entity.

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<sup>1</sup> See Section 1240, "Classes of Depreciable Property", 1992 U.S. Master Tax Guide (Commerce Clearing House) discussing Internal Revenue Code sections 1245 and \*1250.

Table II-C-1  
**SOUTHERN CALIFORNIA GAS COMPANY**  
 Provision of Goods and Services  
 From the Utility to its Affiliated Entities  
 For the Year Ended December 31, 2008

USOA Acct Item/Services Description	Cost Allocation Methodology	Sempra Energy	Sempra Broadband	Sempra Energy Trading	Sempra Financial	Sempra Global	Sempra Energy LNG Corp	Sempra Pipelines & Storage	Sempra Generation	Sempra Energy Solutions	Sempra Energy Solutions	Pacific Enterprises Oil Company	Total
146 Accounting & Finance	A	\$ 108,374	\$ 1,219	\$ 6,999	\$ 762	\$ 21,349	\$ 10,271	\$ 18,164	\$ 13,771	\$ 312	\$ -	\$ 181,223	
Depreciation	A	2,582,290	-	1,061	-	20,222	248,07	2,636	2,912	1,141,84	-	2,610,530	
Environmental Service	A	2,634	-	-	-	639	76	71	128	295	-	4,062	
Fleet Services	A	43,666	-	-	-	-	-	-	-	-	-	43,666	
Gas Engineering	A	-	-	-	-	-	-	-	-	-	-	320,485	
Human Resources	AD	2,766,774	-	-	-	16,864	84	(36,822)	(95,743)	-	-	2,651,157	
Information Technology	A	123,650	-	1,350	-	8,621	-	5,227	5,666	6,849	-	151,364	
Interest	C	-	-	-	-	-	-	-	-	-	121	121	
Oil/Gas Assessment & Extraction	A	1,585,362	14,596	150	-	23,617	2,102	3,773	4,078	1,549	245,194	245,194	
Real Estate & Facilities	A	-	-	-	-	-	-	-	-	-	-	1,655,028	
803 Gas Sales	E	-	15,537,707	-	-	-	-	-	-	-	-	15,537,707	
		<b>\$ 7,212,750</b>	<b>\$ 15,816</b>	<b>\$ 15,816</b>	<b>\$ 15,816</b>	<b>\$ 15,816</b>	<b>\$ 762</b>	<b>\$ 91,532</b>	<b>\$ 12,781</b>	<b>\$ 313,554</b>	<b>\$ (69,187)</b>	<b>\$ 9,946</b>	<b>\$ 245,315</b>
													<b>\$ 231,350,536</b>

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**C. UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 1-7 (Cont'd):**

- The middle portions of Table II-C-1 corresponding to each horizontal column and vertical row will be called cells.
6. For each cell in Table II-C-1 the utility shall aggregate all transactions for goods and/or services it provided to each affiliated entity under:
- a) The appropriate column heading for that affiliated entity; and,
  - b) The row corresponding to the appropriate USOA account category.
7. The following information shall be reported in the corresponding cells of Table II-C-1:
- The total transfer price assigned to this USOA account for any goods or services provided by the utility to the affiliated entity;
  - The allocated cost, if different from the transfer price, for any goods or services provided by the utility to the affiliated entity;
  - Allocated costs as a percentage of total recorded costs for the USOA account;
  - The ratio for each USOA account of the actual total recorded expenses versus total expenses authorized in the utility's most recent General Rate Case (expressed as a percentage).

**Response:**

See attached Table II-C-1 for charges to affiliates.

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**C. UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 8:**

8. Briefly list the applicable cost allocation methodology and transfer pricing method used to determine the corresponding dollar volumes listed on the previous table.

**Response:**

All dollar values in Table II-C-1, with the exception of those noted in "B", "C", "D" and "E" below represent fully loaded costs. SoCalGas considers "fully loaded/allocated costs" to mean the same as "transfer pricing" as referred to in this requirement. Therefore, the information that is requested relative to transfer pricing differences is not applicable. Following is a description of the costing methodologies that are referenced in Table II-C-1:

- (A) All services provided by SoCalGas are billed at fully loaded cost. In the case of labor charges, "fully loaded" costs include all associated labor, indirect overheads and, where applicable, a labor premium. For the shared service labor billed to the unregulated affiliates, a 5% premium is applied to fully loaded labor costs. For non-shared services to unregulated, energy-related affiliates, a 10% premium is applied to direct non-executive labor and a 15% premium is applied to direct executive labor. The Enova/Pacific Enterprises Merger Decision (D.98-03-073) requires these additional labor premiums.
- (B) Like any other 3rd party, affiliate companies are charged the current market price for various telecom projects, customer construction projects, and studies. These projects and services are billed and accounted for using the deposit method. Before the project begins, affiliates are required to deposit the total estimated amount of the funds needed to pay for the project. Should the project be completed for an amount less than the deposit, a refund is made.
- (C) The interest rate used is the Federal Reserve prime non-financial 3-month commercial paper rate, compounded monthly. No overheads or add-on costs are added to the interest amount.
- (D) In most circumstances where a SoCalGas employee transfers to an affiliate company, the Enova/Pacific Enterprises Merger Decision (D.98-03-073) requires that Employee Transfer fees be charged to the affiliate. These costs are included under Human Resources and do not require overhead loadings or add-on-costs.
- (E) SoCalGas has gas sales and purchase transactions with Sempra Energy Trading during the reporting period. All gas purchases and sales transactions were the results of "arms-length" transactions through brokerage firms. Neither party had knowledge of the counterparty's identity until after commitment to the broker was made, in accordance

SOUTHERN CALIFORNIA GAS COMPANY

Affiliate Transactions Annual Report

2008

Response to Affiliate Transaction Reporting Requirements Section:

**C. UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 8 (Cont'd):**

with remedial measures. Gas purchases are reported in Schedule D and gas sales are reported in Schedule C.

**Request No. 9:**

9. In addition to the information requested in Table II-C-1, each utility shall provide, as a separate document, a brief narrative description for any affiliated entity that had over \$10,000 of transfer price recorded in any USOA account. This narrative description will describe in greater detail the types of goods and services provided, as well as the methodologies used to calculate their transfer price and allocated cost.

**Response:**

Individual "Internal Orders" have been established for charging to each affiliate company for services performed. Generally, one internal order is created for each project or type of work done. All services are billed on a monthly basis.

**USOA Account 146**

This account is used by SoCalGas for amounts and interest due from affiliated companies for services provided. These amounts are billed at fully loaded cost plus appropriate labor premiums.

The nature of services billed in account 146 is as follows:

**Accounting & Finance**

This category includes services such as affiliate billing and costing, accounts payable, claims, business planning and budgets, and internal audit.

**Depreciation**

This category contains charges for depreciation, usage, and return on shared assets.

**Environmental Services**

This category includes service charges and fees for environmental services and strategy.

**Fleet Services**

This category includes charges for the lease, maintenance, and overhead costs of vehicles being used by SoCalGas employees for affiliate-related work, as well as charges for the use of SoCalGas fleet vehicles by affiliate employees.

**SOUTHERN CALIFORNIA GAS COMPANY**

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Response to Affiliate Transaction Reporting Requirements Section:

**C.     UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 9 (Cont'd):**

**Gas Engineering**

This category includes billings to Sempra Pipelines & Storage for the redesign of the Termoelectrica de Mexicali (TDM) Meter Set, the general measurement and regulation support for North Baja Pipeline, the review of the electrical, gas control system, and instrumentation design packages for LNG Spur Pipeline sites, and the support to integrate the Algodones Meter Station into SCADA system.

**Human Resources**

This category includes the reimbursements from Sempra Energy for SoCalGas executive long-term incentive plan and stock option related payments. It also contains human resources, disability management services and incentive compensation billing for employees that transferred from SoCalGas to affiliates.

**Information Technology**

This category includes service charges for IT budgeting, service management, server engineering, mainframe, internet engineering, information protection, disaster recovery, network engineering, LAN/WAN, hardware and software maintenance, production control operations, and operation control.

**Interest**

Interest is charged to affiliates on balances over 30 days past due.

**Oil/Gas Assessment & Extraction**

This category includes billings to Pacific Enterprises Oil Company (PEOC) for lifting costs provided at the Aliso Canyon underground storage facility.

**Real Estate & Facilities**

This category includes services such as real estate management, rent management, capital facilities and operational/maintenance programs.

**USOA Account 803**

This account is used by SoCalGas for amounts related to natural gas sales and purchases transactions.

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**C. UTILITY PROVISION OF GOODS AND SERVICES TO ITS AFFILIATED ENTITIES**

**Request No. 9 (Cont'd):**

**Note**

As a result of the 04/01/2008 RBS Sempra Commodities, LLP joint venture; Sempra Energy Solutions, LLC has reported transactions through March 31, 2008. Sempra Energy Trading, LLC has reported transactions for the entire year as a result of on-going business with SoCalGas' Gas Acquisition (Account 803). Any subsequent transactions outside of this account are charged to Sempra Global for both entities. Prior transactions were reported as Sempra Energy Solutions and Sempra Energy Trading.

TABLE II D-1  
**SOUTHERN CALIFORNIA GAS COMPANY**  
 Provision of Goods And Services  
 from Affiliated Entities To The Utility  
 For The Year Ended December 31, 2008

USOA Account	Account Description	Sempra Energy	Sempra Energy Trading	Total	% of USOA Account
107	Construction Work In Progress	\$ 7,159,919		\$ 7,159,919	N/A
165	Prepayments	1,035,807		1,035,807	N/A
181	Unamortized Debt Expense	128,200		128,200	N/A
184	Clearing Accounts	2,380,805		2,380,805	N/A
186	Miscellaneous Deferred Debits	29,000		29,000	N/A
495	Other Gas Revenues	(612,571)		(612,571)	N/A
803	Natural Gas Transmission Line Purchases	-	\$ 25,342,725	25,342,725	<1.00%
824	Other Expenses	2,010		2,010	<1.00%
880	Other Expenses	951,877		951,877	4.10%
901	Supervision	284,128		284,128	5.68%
903	Customer Records and Collection Expenses	64,330		64,330	<1.00%
908	Customer Assistance Expenses	10,180		10,180	<1.00%
909	Informational And Instructional Advertising Expenses	25,268		25,268	1.41%
910	Miscellaneous Customer Serv And Informational Expe	1,204,920		1,204,920	42.44%
921	Office Supplies And Expenses	377,743		377,743	6.22%
923	Outside Services Employed	79,361,341		79,361,341	70.97%
924	Property Insurance	2,973,897		2,973,897	60.49%
925	Injuries And Damages	13,300,629		13,300,629	30.91%
926	Employee Pensions And Benefits	453,092		453,092	<1.00%
928	Regulatory Commission Expenses	535,891		535,891	8.19%
930	Miscellaneous General Expenses	81,405		81,405	1.37%
931	Rents	92,552		92,552	<1.00%
<b>Total:</b>		<b>\$ 109,840,424</b>	<b>\$ 25,342,725</b>	<b>\$ 135,183,149</b>	

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 1-9:**

1. Section C required each utility to report goods and/or services that it provided to its affiliated entities. This section (Section D), requires the reporting of all goods and/or services that the affiliated entities provided to the utility.
2. Each utility shall report any goods and/or services that were provided to it by any of its affiliated entities during the period covered by the annual report. All goods and/or services shall be reported regardless of whether or not the affiliated entity was reimbursed.
3. For purposes of this section, "Goods" has the same meaning as used in Section C above.
4. For purposes of this section, "Services" includes any activity of economic value provided by the affiliated entity, or any company under contract to the affiliated entity, to the utility. The examples of the types of services listed in #3 of Section II-C above are applicable to this section as well. Purchases of natural gas or electric energy from any affiliated entity should be reported in this section.
5. The cost of each good and/or service that the affiliated entity provided to the utility shall be assigned by the utility to an appropriate USOA Account of the utility.
6. Using the format shown, each utility shall create a table (entitled Table II-D-1), containing:
  - A set of columns by listing horizontally across the top of Table II-D-1 each affiliated entity listed in Table II-A-1, excluding, however, any affiliated entities which provided no goods and/or services to the utility during the calendar year.
  - A set of rows by listing vertically down the left side of Table II-D-1 each USOA account (listed in ascending order) for which the utility had incurred a cost for goods and/or services provided by the affiliated entity.
  - The middle portions of Table II-D-1, corresponding to each horizontal column and vertical row, will be called cells.
7. For each cell in Table II-D-1, the utility shall aggregate all transactions for goods and/or services it provided to each affiliated entity under:
  - 1) The appropriate column heading for that affiliated entity; and,
  - 2) The row corresponding to the appropriate USOA account category.

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 1-9 (Cont'd):**

8. The following information shall be reported in the corresponding cells of Table II-D-1:
  - The total transfer price assigned to this USOA account for any goods or services provided by the affiliated entity to the utility;
  - The allocated cost, if different from the transfer price, as calculated by the affiliated entity as the cost for any goods or services provided to the utility;
  - The fair market value of the goods and service provided, if determined;
  - Allocated costs as a percentage of total recorded costs for the USOA account.
9. At the end of each row, each utility shall briefly list the applicable methodology used to determine allocated cost and transfer price as well as any calculations and reviews utilized to determine fair market value.

**Response:**

Using the format provided for Table II-D-1 (attached), the costs of all goods and services provided to SoCalGas by affiliated entities during the reporting period have been presented. The costs have been accumulated by USOA account and by affiliated entity.

In accordance with the Affiliate Compliance Guidelines (see Section II-B-VII), the "transfer price" for goods and services provided to SoCalGas by Sempra Energy is recorded at fully loaded costs. All values in Table II-D-1 related to purchases/sales of energy between Sempra Energy Trading and SoCalGas are at fair market value. In accordance with the Remedial Measures (see Appendices to Section II B), these transactions are carried out through an independent broker and neither party has knowledge of the others identity until the contractual commitment has been consummated.

SOUTHERN CALIFORNIA GAS COMPANY

Affiliate Transactions Annual Report

2008

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 10:**

10. In addition to the information requested in Table II-D-1, each utility shall provide, as a separate document, a brief narrative description for any USOA account that had recorded over \$10,000 in goods and services provided by an affiliated entity. This narrative description will describe in greater detail the types of goods and services provided, as well as the methodologies used to calculate their transfer price and a summary of all methodologies and calculations used to determine fair market value.

**Response:**

All values in Table II-D-1 related to purchased goods and services from Sempra Energy are at fully loaded cost as required by the Affiliate Compliance Guidelines (see Section II-B-VII). Goods or services directly requested by SoCalGas are recorded in the appropriate USOA account. Shared services costs are allocated to SoCalGas on a causal or beneficial relationship when identifiable; otherwise the shared services costs are allocated using an approved multifactor allocation method. Shared services costs received by SoCalGas from Sempra Energy are analyzed and recorded to the appropriate USOA account.

All values in Table II-D-1 related to purchases/sales of energy between Sempra Energy Trading and SoCalGas are at fair market value. In accordance with the Remedial Measures (see Appendices to Section II B), these transactions are carried out through an independent broker and neither party had knowledge of the others identity until the contractual commitment had been consummated.

**USOA Account 107: Construction Work in Progress (CWIP)**

This account includes gas construction work in progress assets and allocations for services provided by affiliates that support capital activities at SoCalGas.

**USOA Account 165: Prepayments**

This account includes prepayments for taxes, insurance, interest, and disbursements made prior to the period to which they apply. The cost in this account is related to insurance premiums.

**USOA Account 181: Unamortized Debt Expense**

This account includes expenses related to the issuance or assumption of debt securities. Amounts shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security.

**USOA Account 184: Clearing Accounts**

This caption shall include undistributed balances in clearing accounts at the date of the balance sheet. When services are provided to SoCalGas, a portion of the cost of this service is charged to a clearing account. These are Administrative & General Costs related to affiliate and third-party transactions. Balances in this clearing account shall be substantially cleared not later than the end of the calendar year unless items held therein relate to a further period.

SOUTHERN CALIFORNIA GAS COMPANY

Affiliate Transactions Annual Report

2008

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 10 (Cont'd):**

**USOA Account 186: Miscellaneous Deferred Debits**

This account includes the SCG Shelf Registration cost.

**USOA Account 495: Other Gas Revenues**

This account includes a rebate from Microsoft for a class action lawsuit.

**USOA Account 803: Natural Gas Transmission Line Purchases**

During the reporting period, the affiliates supplied natural gas to SoCalGas under contract terms in USOA Account 803.

All purchases transactions were the results of "arms-length" transactions through brokerage firms. Neither party had knowledge of the counterparty's identity until after commitment to the broker was made, in accordance with Affiliate Transaction Rules.

During the reporting period, The Southern California Gas Company did not enter into any over-the-counter financial swap transactions.

**USOA Account 880: Other Expenses**

This account includes the labor cost, materials utilized and expenses incurred in site assessment, mitigation and cleanup of contaminated properties, including manufactured gas plants.

**USOA Account 901: Supervision**

This account includes the cost of postage incurred in the general direction and supervision of customer accounts.

**USOA Account 903: Customer records and collection expenses**

This account includes the cost of labor, materials and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

**USOA Account 908: Customer assistance expenses**

This account includes the cost of labor, materials and expenses incurred in providing instructions or assistance to customers, the object of which is to promote safe, efficient and economical use of the service.

**USOA Account 909: Informational and Instructional Advertising Expenses**

This account shall include the cost of labor, materials used and expenses incurred in activities which primarily convey information as to what the utility urges or suggests customers should do in utilizing gas service to protect health and safety, to encourage environmental protection, to utilize their gas equipment safely and economically, or to conserve natural gas.

SOUTHERN CALIFORNIA GAS COMPANY

Affiliate Transactions Annual Report

2008

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 10 (Cont'd):**

**USOA Account 910: Miscellaneous Customer Service and Informational Expenses**

This account includes the cost of labor, materials utilized, and expenses incurred in providing customer service and informational activities, which are not includable in other customer information expense accounts.

**USOA Account 921: Office Supplies and Expenses**

This account includes office supplies and expenses incurred in connection with the general administration of the utility's operations that are assignable to specific administrative or general departments and are not specifically provided for in other accounts.

**USOA Account 923: Outside Services Employed**

This account includes the fees and expenses of professional consultants (such as lawyers, auditors, appraisers, expert witnesses, or management, accounting, and engineering consultants) and others for general services that are not applicable to a particular operation function or to other accounts. This account includes the salaries and wages expenses of affiliate administrative and general departments that provide service to the Southern California Gas Company. In addition, this account includes office supplies and expenses incurred in connection with this general administration.

**USOA Account 924: Property Insurance**

This account shall include the cost of insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations. It shall include also the cost of labor and related supplies and expenses incurred in property insurance activities.

**USOA Account 925: Injuries and Damages**

This account shall include the cost of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others, losses of such character not covered by insurance, and expenses incurred in settlement of injuries and damages claims. It shall also include the cost of labor and related supplies and expenses incurred in injuries and damages activities.

**USOA Account 926: Employee Pensions and Benefits**

This account includes stock option expenses, pension accruals or actual payments made on behalf of current employees or retired employees and payments for the purchase of annuities relating to pensions.

**USOA Account 928: Regulatory Commission Expenses**

This account shall include all expenses properly includable in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees.

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 10 (Cont'd):**

**USOA Account 930: Miscellaneous General Expenses**

This account includes the cost of labor and expenses incurred in connection with the general management of the Southern California Gas Company not provided for elsewhere.

**USOA Account 931: Rents**

This account includes rents properly includable in utility operating expenses for the property of other used, occupied, or operated in connection with the customer accounts, customer service and informational, sales, and general and administrative functions of the utility.

**Note:**

As a result of the 04/01/2008 RBS Sempra Commodities, LLP joint venture; Sempra Energy Solutions, LLC has reported transactions through March 31, 2008. Sempra Energy Trading, LLC has reported transactions for the entire year as a result of on-going business with SoCalGas' Gas Acquisition (Account 803). There have been no other goods or services billed to SoCalGas outside this account.

**SOUTHERN CALIFORNIA GAS COMPANY**

**Affiliate Transactions Annual Report**

**2008**

Response to Affiliate Transaction Reporting Requirements Section:

**D. AFFILIATED ENTITIES PROVISION OF GOODS AND SERVICES TO THE UTILITY**

**Request No. 11:**

1. For any USOA account classification containing greater than \$25,000 in reported transactions, the utility shall provide as an addendum to Table II-D-1 any comparisons performed by the utility of the cost of goods or services provided by the affiliated entities with other providers not affiliated with the utility.

**Response:**

During 2008, the utility did not conduct any studies for the purpose of comparing the cost of goods or services provided during the year by affiliated entities with the costs provided by unaffiliated providers.

## **Appendix C**

# **Interstate Capacity Holdings Report**

**Appendix C**  
**Southern California Gas Company**  
**Core Firm Transportation Capacity Holdings**  
**as of 3/31/09**  
**(in MMcf/d)**

		2008-2009											
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
El Paso													
San Juan		758	758	758	728	758	758	758	800	800	800	800	800
Permian		-	31	-	29	-	-	-	-	-	-	-	-
Total El Paso		758	789	758	757	758	758	758	800	800	800	800	800
Transwestern (1)													
San Juan		213	213	213	213	221	213	213	213	225	208	164	193
Permian		-	-	-	-	-	-	-	-	5	-	20	
Total Transwestern		213	213	213	213	221	213	213	213	225	213	164	213
Kern (1)													
Rockies		107	107	109	107	107	107	107	107	107	107	107	107
Total Kern		107	107	109	107	107	107	107	107	107	107	107	107
Canadian Path (2)													
NOVA		54	54	54	54	54	54	54	54	54	54	54	54
Foothills		53	53	53	53	53	53	53	53	53	53	53	53
GTN		52	52	52	52	52	52	52	52	52	52	52	52
PG&E		51	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)		1,129	1,160	1,131	1,127	1,137	1,129	1,129	1,171	1,182	1,171	1,122	1,171
San Juan		971	971	941	979	971	971	971	1,013	1,025	1,008	964	993
Permian		-	31	-	29	-	-	-	-	-	5	-	20
Rockies		107	107	109	107	107	107	107	107	107	107	107	107
Canadian Path (2)		51	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)		1,129	1,160	1,131	1,127	1,137	1,129	1,129	1,171	1,182	1,171	1,122	1,171

Notes:

The capacity data in this table is grouped by source of supply (i.e. receipt locations), and not displayed for each receipt/delivery point combination

(1) Transwestern and Kern River capacity have been converted from MMBtu to Mcf using a conversion factor equal to the 12-month average heating value of gas received by SoCalGas from the respective pipelines during the prior GCIM cycle (4/07- 3/08)

(2) For the purpose of calculating the capacity planning range pursuant to D-04-09-022, only the PG&E capacity is included from the Canadian path.

Average for Year 15: 1,147

**Appendix C**  
**Southern California Gas Company**  
**Core Firm Transportation Capacity Holdings**  
**as of 3/31/09**  
**(in MMcf/d)**

	Apr	May	Jun	Jul	Aug	2009-2010					
						Sep	Oct	Nov	Dec	Jan	Feb
El Paso											
San Juan	758	758	758	758	758	590	590	590	590	590	590
Permian	-	-	-	-	-	-	-	-	-	-	-
Total El Paso	758	758	758	758	758	590	590	590	590	590	590
Transwestern (1)											
San Juan	194	204	174	194	194	194	194	194	246	246	246
Permian	19	-	19	19	19	19	19	-	-	-	-
Total Transwestern	213	204	193	213	213	213	213	246	246	246	246
Kern (1)											
Rockies	107	107	107	107	107	107	107	107	100	100	100
Total Kern	107	107	107	107	107	107	107	100	100	100	100
Canadian Path (2)											
NOVA	54	54	54	54	54	54	54	54	54	54	54
Foothills	53	53	53	53	53	53	53	53	53	53	53
GTN	52	52	52	52	52	52	52	52	52	52	52
PG&E	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)	1,129	1,119	1,108	1,129	1,129	961	961	987	987	987	987
San Juan	952	962	932	952	952	784	784	836	836	836	836
Permian	19	-	19	19	19	19	19	-	-	-	-
Rockies	107	107	107	107	107	107	107	100	100	100	100
Canadian Path (2)	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)	1,129	1,119	1,109	1,129	1,129	961	961	987	987	987	987

**Appendix C**  
**Southern California Gas Company**  
**Core Firm Transportation Capacity Holdings**  
**as of 3/31/09**  
**(in MMcf/d)**

		2010-2011											
		Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
<b>El Paso</b>													
San Juan		565	565	565	565	565	320	320	320	320	320	320	
Permian		-	-	-	-	-	-	-	-	-	-	-	
<b>Total El Paso</b>		<b>565</b>	<b>565</b>	<b>565</b>	<b>565</b>	<b>565</b>	<b>320</b>	<b>320</b>	<b>320</b>	<b>320</b>	<b>320</b>	<b>320</b>	
<b>Transwestern (1)</b>													
San Juan		197	197	197	197	197	197	197	246	246	246	246	
Permian		-	-	-	-	-	-	-	-	-	-	-	
<b>Total Transwestern</b>		<b>197</b>	<b>246</b>	<b>246</b>	<b>246</b>	<b>246</b>							
<b>Kern (1)</b>													
Rockies		100	100	100	100	100	100	100	100	100	100	100	
<b>Total Kern</b>		<b>100</b>											
<b>Canadian Path (2)</b>													
NOVA		54	54	54	54	54	54	54	54	11	11	11	
Foothills		53	53	53	53	53	53	53	-	-	-	-	
GTN		52	52	52	52	52	52	52	52	52	52	52	
PG&E		51	51	51	51	51	51	51	51	51	51	51	
<b>Total Transport (2)</b>		<b>913</b>	<b>913</b>	<b>913</b>	<b>913</b>	<b>913</b>	<b>668</b>	<b>668</b>	<b>717</b>	<b>717</b>	<b>717</b>	<b>717</b>	
San Juan		762	762	762	762	762	517	517	566	566	566	566	
Permian		-	-	-	-	-	-	-	-	-	-	-	
Rockies		100	100	100	100	100	100	100	100	100	100	100	
<b>Canadian Path (2)</b>		<b>51</b>											
<b>Total Transport (2)</b>		<b>913</b>	<b>913</b>	<b>913</b>	<b>913</b>	<b>913</b>	<b>668</b>	<b>668</b>	<b>717</b>	<b>717</b>	<b>717</b>	<b>717</b>	

**Appendix C**  
**Southern California Gas Company**  
**Core Firm Transportation Capacity Holdings**  
**as of 3/31/09**  
**(in MMcf/d)**

	Apr	May	Jun	2011-2012					Jan	Feb	Mar
				Jul	Aug	Sep	Oct	Nov			
El Paso											
San Juan	320	320	320	320	320	-	-	-	-	-	-
Permian	-	-	-	-	-	-	-	-	-	-	-
Total El Paso	320	320	320	320	320	-	-	-	-	-	-
Transwestern (1)											
San Juan	99	99	99	99	99	99	99	99	148	148	148
Permian	-	-	-	-	-	-	-	-	-	-	-
Total Transwestern	99	99	99	99	99	99	99	99	148	148	148
Kern (1)											
Rockies	100	100	100	100	100	100	100	100	100	100	100
Total Kern	100	100	100	100	100	100	100	100	100	100	100
Canadian Path (2)											
NOVA	11	11	11	11	11	11	11	11	11	11	11
Foothills	-	-	-	-	-	-	-	-	-	-	-
GTN	52	52	52	52	52	52	52	52	52	52	52
PG&E	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)	569	569	569	569	569	249	249	299	299	299	299
San Juan	419	419	419	419	419	99	99	148	148	148	148
Permian	-	-	-	-	-	-	-	-	-	-	-
Rockies	100	100	100	100	100	100	100	100	100	100	100
Canadian Path (2)	51	51	51	51	51	51	51	51	51	51	51
Total Transport (2)	569	569	569	569	569	249	249	299	299	299	299

## **Attachment B**

**SOUTHERN CALIFORNIA GAS COMPANY  
BALANCE SHEET  
ASSETS AND OTHER DEBITS  
MARCH 31, 2009**

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<b>1. UTILITY PLANT</b>		<b>2009</b>
101	UTILITY PLANT IN SERVICE	\$8,501,530,431
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	-
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	220,428,943
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(3,549,406,702)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(16,554,703)
117	GAS STORED-UNDERGROUND	<u>55,521,950</u>
<b>TOTAL NET UTILITY PLANT</b>		<b><u>5,211,519,919</u></b>

**2. OTHER PROPERTY AND INVESTMENTS**

121	NONUTILITY PROPERTY	123,507,428
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(97,273,219)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	18,122
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	<u>1,000,000</u>
<b>TOTAL OTHER PROPERTY AND INVESTMENTS</b>		<b><u>27,252,331</u></b>

**SOUTHERN CALIFORNIA GAS COMPANY  
BALANCE SHEET  
ASSETS AND OTHER DEBITS  
MARCH 31, 2009**

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**3. CURRENT AND ACCRUED ASSETS**

	<u>2009</u>
131 CASH	26,384,490
132 INTEREST SPECIAL DEPOSITS	-
134 OTHER SPECIAL DEPOSITS	-
135 WORKING FUNDS	93,075
136 TEMPORARY CASH INVESTMENTS	566,600,000
141 NOTES RECEIVABLE	81,222
142 CUSTOMER ACCOUNTS RECEIVABLE	481,826,091
143 OTHER ACCOUNTS RECEIVABLE	14,261,208
144 ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(7,511,256)
145 NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	506,336
146 ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	(9,206,049)
151 FUEL STOCK	-
152 FUEL STOCK EXPENSE UNDISTRIBUTED	-
154 PLANT MATERIALS AND OPERATING SUPPLIES	27,609,809
155 MERCHANDISE	1,573
156 OTHER MATERIALS AND SUPPLIES	-
163 STORES EXPENSE UNDISTRIBUTED	(354,314)
164 GAS STORED	14,227,958
165 PREPAYMENTS	6,745,733
171 INTEREST AND DIVIDENDS RECEIVABLE	358,605
173 ACCRUED UTILITY REVENUES	-
174 MISCELLANEOUS CURRENT AND ACCRUED ASSETS	21,643,670
175 DERIVATIVE INSTRUMENT ASSETS	7,867,266
176 LONG TERM PORTION OF DERIVATIVE ASSETS - HEDGES	<u>8,281,596</u>
 TOTAL CURRENT AND ACCRUED ASSETS	 <u>1,159,417,013</u>

**4. DEFERRED DEBITS**

181 UNAMORTIZED DEBT EXPENSE	6,038,260
182 UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	1,058,349,211
183 PRELIMINARY SURVEY & INVESTIGATION CHARGES	-
184 CLEARING ACCOUNTS	380,911
185 TEMPORARY FACILITIES	-
186 MISCELLANEOUS DEFERRED DEBITS	35,739,425
188 RESEARCH AND DEVELOPMENT	-
189 UNAMORTIZED LOSS ON REACQUIRED DEBT	29,314,998
190 ACCUMULATED DEFERRED INCOME TAXES	347,733,720
191 UNRECOVERED PURCHASED GAS COSTS	-
 TOTAL DEFERRED DEBITS	 <u>1,477,556,525</u>

TOTAL ASSETS AND OTHER DEBITS                           \$ 7,875,745,788

**SOUTHERN CALIFORNIA GAS COMPANY**  
**BALANCE SHEET**  
**LIABILITIES AND OTHER CREDITS**  
**MARCH 31, 2009**

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**5. PROPRIETARY CAPITAL**

	<u>2009</u>
201 COMMON STOCK ISSUED	834,888,907
204 PREFERRED STOCK ISSUED	21,551,075
207 PREMIUM ON CAPITAL STOCK	-
208 OTHER PAID-IN CAPITAL	-
210 GAIN ON RETIRED CAPITAL STOCK	9,722
211 MISCELLANEOUS PAID-IN CAPITAL	31,306,680
214 CAPITAL STOCK EXPENSE	(143,261)
216 UNAPPROPRIATED RETAINED EARNINGS	690,021,779
219 ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>(27,272,589)</u>
 TOTAL PROPRIETARY CAPITAL	 <u>1,550,362,313</u>

**6. LONG-TERM DEBT**

221 BONDS	1,350,000,000
224 OTHER LONG-TERM DEBT	12,475,533
225 UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226 UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	<u>(2,184,289)</u>
 TOTAL LONG-TERM DEBT	 <u>1,360,291,244</u>

**7. OTHER NONCURRENT LIABILITIES**

227 OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	-
228.2 ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	96,213,544
228.3 ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	876,063,157
228.4 ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230 ASSET RETIREMENT OBLIGATIONS	<u>604,522,376</u>
 TOTAL OTHER NONCURRENT LIABILITIES	 <u>1,576,799,077</u>

**SOUTHERN CALIFORNIA GAS COMPANY**  
**BALANCE SHEET**  
**LIABILITIES AND OTHER CREDITS**  
**MARCH 31, 2009**

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**8. CURRENT AND ACCRUED LIABILITIES**

	<u>2009</u>
231 NOTES PAYABLE	-
232 ACCOUNTS PAYABLE	296,853,878
233 NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234 ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	20,946,660
235 CUSTOMER DEPOSITS	104,756,797
236 TAXES ACCRUED	26,179,231
237 INTEREST ACCRUED	23,044,420
238 DIVIDENDS DECLARED	323,265
241 TAX COLLECTIONS PAYABLE	21,048,233
242 MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	173,112,234
243 OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	-
244 DERIVATIVE INSTRUMENT LIABILITIES	107,626
245 DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
 TOTAL CURRENT AND ACCRUED LIABILITIES	 <u>666,372,344</u>

**9. DEFERRED CREDITS**

252 CUSTOMER ADVANCES FOR CONSTRUCTION	98,746,532
253 OTHER DEFERRED CREDITS	202,173,719
254 OTHER REGULATORY LIABILITIES	1,846,517,567
255 ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	29,672,762
257 UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281 ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	-
282 ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	193,996,870
283 ACCUMULATED DEFERRED INCOME TAXES - OTHER	350,813,360
 TOTAL DEFERRED CREDITS	 <u>2,721,920,810</u>

TOTAL LIABILITIES AND OTHER CREDITS      \$ 7,875,745,788

## **Attachment C**

**SOUTHERN CALIFORNIA GAS COMPANY  
STATEMENT OF INCOME AND RETAINED EARNINGS  
THREE MONTHS ENDED MARCH 31, 2009**

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**1. UTILITY OPERATING INCOME**

400	OPERATING REVENUES	\$917,558,659
401	OPERATING EXPENSES	\$688,035,592
402	MAINTENANCE EXPENSES	29,540,753
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	72,471,413
408.1	TAXES OTHER THAN INCOME TAXES	17,853,250
409.1	INCOME TAXES	31,373,638
410.1	PROVISION FOR DEFERRED INCOME TAXES	12,275,535
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(1,711,570)
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(671,865)
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	(868)
411.7	LOSS FROM DISPOSITION OF UTILITY PLANT	-
	TOTAL OPERATING REVENUE DEDUCTIONS	<u>849,165,878</u>
	NET OPERATING INCOME	68,392,781

**2. OTHER INCOME AND DEDUCTIONS**

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-
417	REVENUES FROM NONUTILITY OPERATIONS	-
417.1	EXPENSES OF NONUTILITY OPERATIONS	24,829
418	NONOPERATING RENTAL INCOME	(104,089)
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-
419	INTEREST AND DIVIDEND INCOME	(1,434,605)
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	(2,407,007)
421	MISCELLANEOUS NONOPERATING INCOME	(56,545)
421.1	GAIN ON DISPOSITION OF PROPERTY	-
	TOTAL OTHER INCOME	<u>(3,977,417)</u>
425	MISCELLANEOUS AMORTIZATION	-
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	<u>874,762</u>
		874,762
408.2	TAXES OTHER THAN INCOME TAXES	24,543
409.2	INCOME TAXES	(1,220,764)
410.2	PROVISION FOR DEFERRED INCOME TAXES	(3,953,784)
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(20,368)
420	INVESTMENT TAX CREDITS	(2,720)
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	<u>(5,173,093)</u>
	TOTAL OTHER INCOME AND DEDUCTIONS	<u>(8,275,748)</u>
	INCOME BEFORE INTEREST CHARGES	76,668,529
	NET INTEREST CHARGES*	<u>16,956,485</u>
	NET INCOME	<u>\$59,712,044</u>

\*NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION. (\$1,248,533)

SOUTHERN CALIFORNIA GAS COMPANY  
STATEMENT OF INCOME AND RETAINED EARNINGS  
THREE MONTHS ENDED MARCH 31, 2009

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**3. RETAINED EARNINGS**

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	\$630,633,001
NET INCOME (FROM PRECEDING PAGE)	59,712,044
DIVIDEND TO PARENT COMPANY	
DIVIDENDS DECLARED - PREFERRED STOCK	(323,266)
OTHER RETAINED EARNINGS ADJUSTMENT	
RETAINED EARNINGS AT END OF PERIOD	<u>\$690,021,779</u>

## **Attachment D**

**TABLE SCG-1**  
**Southern California Gas Company**  
**SUMMARY OF ANNUAL GAS TRANSPORTATION REVENUES**  
**GCIM Year 15**

	BCAP Volumes	At Present Rates		At Proposed Rates		Change (Increase / Decrease)		
		B	C	D	E	G	H	I
A	(Mth)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(M\$)	(\$/Th)	(%)
<b>CORE PROCUREMENT</b>								
1 Residential	2,484,024	\$1,137,926	\$0.45810	\$1,147,169	\$0.46182	\$9,243	\$0.00372	0.8% 1
2 Large Master Meter	37,360	\$8,920	\$0.23875	\$9,059	\$0.24247	\$139	\$0.00372	1.6% 2
3 Commercial & Industrial	700,113	\$207,990	\$0.29708	\$210,595	\$0.30080	\$2,605	\$0.00372	1.3% 3
4 Gas A/C	1,060	\$149	\$0.14019	\$153	\$0.14391	\$4	\$0.00372	2.7% 4
5 Gas Engine	15,240	\$1,773	\$0.11636	\$1,830	\$0.12008	\$57	\$0.00372	3.2% 5
6 Total Core Procurement	3,237,796	\$1,356,758	\$0.41904	\$1,368,806	\$0.42276	\$12,048	\$0.00372	0.9% 6
<b>CORE TRANSPORTATION<sup>2</sup></b>								
7 Residential	25,091	\$11,504	\$0.45850	\$11,504	\$0.45850	\$0	\$0.00000	0% 7
8 Large Master Meter	377	\$90	\$0.23915	\$90	\$0.23915	\$0	\$0.00000	0% 8
9 Commercial & Industrial	134,522	\$37,499	\$0.27876	\$37,499	\$0.27876	\$0	\$0.00000	0% 9
10 Gas A/C	140	\$20	\$0.14019	\$20	\$0.14019	\$0	\$0.00000	0% 10
11 Gas Engine	800	\$93	\$0.11636	\$93	\$0.11636	\$0	\$0.00000	0% 11
12 Total Core Transportation	160,930	\$49,206	\$0.30576	\$49,206	\$0.30576	\$0	\$0.00000	0% 12
13 TOTAL CORE	3,398,727	\$1,405,964	\$0.41367	\$1,418,012	\$0.41722	\$12,048	\$0.00354	1% 13
<b>NONCORE</b>								
14 Commercial & Industrial	1,456,757	\$72,382	\$0.04969	\$72,382	\$0.04969	\$0	\$0.00000	0% 14
15 SoCalGas EG Stand-Alone	2,944,257	\$65,689	\$0.02231	\$65,689	\$0.02231	\$0	\$0.00000	0% 15
16 + Sempra-Wide EG Adjustment	2,944,257	\$2,457	\$0.00083	\$2,457	\$0.00083	\$0	\$0.00000	0% 16
17 = Electric Generation Total	2,944,257	\$68,146	\$0.02315	\$68,146	\$0.02315	\$0	\$0.00000	0% 17
18 Retail Noncore Total <sup>1</sup>	4,401,014	\$140,528	\$0.03193	\$140,528	\$0.03193	\$0	\$0.00000	0% 18
<b>WHOLESALE</b>								
19 Long Beach	77,821	\$1,652	\$0.02123	\$1,652	\$0.02123	\$0	\$0.00000	0% 19
20 SDG&E	1,445,680	\$5,110	\$0.00353	\$5,110	\$0.00353	\$0	\$0.00000	0% 20
21 Southwest Gas	91,672	\$1,748	\$0.01906	\$1,748	\$0.01906	\$0	\$0.00000	0% 21
22 City of Vernon	51,620	\$824	\$0.01596	\$824	\$0.01596	\$0	\$0.00000	0% 22
23 Wholesale Total	1,666,793	\$9,333	\$0.00560	\$9,333	\$0.00560	\$0	\$0.00000	0% 23
<b>INTERNATIONAL</b>								
24 Mexicali - DGN	36,419	\$652	\$0.01790	\$652	\$0.01790	\$0	\$0.00000	0% 24
25 Unbundled Storage	n/a	\$21,000	n/a	\$21,000	n/a	\$0	n/a	0% 25
26 Unallocated Costs to NSBA	n/a	\$16,634	n/a	\$16,634	n/a	\$0	n/a	0% 26
27 SYSTEM TOTALS <sup>1</sup>	9,502,953	\$1,594,112	\$0.16775	\$1,606,160	\$0.16902	\$12,048	\$0.00127	0.8% 27
28 EOR Revenues	482,707	\$22,779	n/a	\$22,779	n/a	\$0	n/a	0% 28

<sup>1</sup> Does not include EOR revenues shown at Line 28.

Note: The rate impact of the GCIM is show an adjustment to transportation rates for illustrative purposes. However, the cost will be recovered through the procurement charge.

Note: The rate impacts shown above are to SoCalGas core procurement customers only. Pursuant to the consolidation of core portfolios of SoCalGas and SDG&E authorized by the Commission in D-07-12-019, a portion of any SoCalGas shareholder reward authorized in this proceeding will be flowed through to SDG&E in the consolidated gas portfolio WACOG. See SDG&E Preliminary Statement, Section VIII.

The estimated figures above have not been altered to reflect any allocation of GCIM shareholder reward to SDG&E.

## **Attachment E**

**SOUTHERN CALIFORNIA GAS COMPANY**

Plant Investment and Accumulated Depreciation  
As of March 31, 2009

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE	NET BOOK VALUE
<b>INTANGIBLE ASSETS</b>				
301	Organization	\$ 76,457	\$ -	76,457
302	Franchise and Consents	545,693	\$ -	545,693
	Total Intangible Assets	<u>\$ 622,150</u>	<u>\$ -</u>	<u>\$ 622,150</u>
<b>UNDERGROUND STORAGE:</b>				
350	Land	\$ 5,150,548	\$ -	5,150,548
350	Storage Rights	17,740,334	16,542,439	1,197,894
350	Rights-of-Way	25,354	12,404	12,950
351	Structures and Improvements	32,861,441	17,070,089	15,791,352
352	Wells	200,649,072	131,802,280	68,846,792
353	Lines	82,204,909	91,223,310	(9,018,401)
354	Compressor Station and Equipment	105,358,541	64,853,026	40,505,514
355	Measuring And Regulator Equipment	5,190,038	1,611,196	3,578,842
356	Purification Equipment	79,529,837	57,002,095	22,527,742
357	Other Equipment	12,613,838	2,584,674	10,029,164
	Total Underground Storage	<u>\$ 541,323,911</u>	<u>\$ 382,701,514</u>	<u>\$ 158,622,397</u>
<b>TRANSMISSION PLANT- OTHER:</b>				
365	Land	\$ 2,666,000	\$ -	2,666,000
365	Land Rights	20,456,148	12,994,190	7,461,958
366	Structures and Improvements	29,560,102	19,990,092	9,570,010
367	Mains	963,981,765	487,728,543	476,253,222
368	Compressor Station and Equipment	174,703,578	94,892,474	79,811,104
369	Measuring And Regulator Equipment	44,933,557	24,849,037	20,084,520
371	Other Equipment	3,990,850	1,999,335	1,991,515
	Total Transmission Plant	<u>\$ 1,240,292,000</u>	<u>\$ 642,453,671</u>	<u>\$ 597,838,329</u>
<b>DISTRIBUTION PLANT:</b>				
374	Land	\$ 28,254,507	\$ -	28,254,507
374	Land Rights	2,646,609	12,264	2,634,345
375	Structures and Improvements	196,922,411	49,379,882	147,542,529
376	Mains	2,832,578,636	1,605,124,428	1,227,454,208
378	Measuring And Regulator Equipment	61,551,391	42,404,595	19,146,796
380	Services	1,956,095,315	1,564,948,799	391,146,516
381	Meters	406,918,942	117,836,434	289,082,507
382	Meter Installation	247,196,195	146,808,197	100,387,998
383	House Regulators	110,463,228	45,108,543	65,354,685
387	Other Equipment	22,797,930	18,413,595	4,384,335
	Total Distribution Plant	<u>\$ 5,865,425,164</u>	<u>\$ 3,590,036,738</u>	<u>\$ 2,275,388,426</u>
<b>GENERAL PLANT:</b>				
389	Land	\$ 1,243,021	\$ -	1,243,021
389	Land Rights	74,300	-	74,300
390	Structures and Improvements	114,056,419	95,473,031	18,583,388
391	Office Furniture and Equipment	371,467,849	212,120,560	159,347,289
392	Transportation Equipment	497,239	(211,045)	708,284
393	Stores Equipment	67,916	67,255	661
394	Shop and Garage Equipment	52,211,380	22,893,735	29,317,645
395	Laboratory Equipment	6,650,179	3,993,835	2,656,345
396	Construction Equipment	94,507	68,556	25,951
397	Communication Equipments	60,017,262	29,765,000	30,252,262
398	Miscellaneous Equipment	3,830,321	(1,613,771)	5,450,092
	Total General Plant	<u>\$ 610,210,394</u>	<u>\$ 362,551,156</u>	<u>\$ 247,659,238</u>
	Grand Total	<u><u>\$ 8,257,873,619</u></u>	<u><u>\$ 4,977,743,079</u></u>	<u><u>\$ 3,280,130,540</u></u>

## **Attachment F**

**SOUTHERN CALIFORNIA GAS COMPANY  
SUMMARY OF EARNINGS  
THREE MONTHS ENDED MARCH 31, 2009  
(DOLLARS IN MILLIONS)**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Operating Revenue	\$918
2	Operating Expenses	<u>849</u>
3	Net Operating Income	<u><u>\$68</u></u>
4	Weighted Average Rate Base	\$2,715
5	Rate of Return*	8.68%

\*Authorized Cost of Capital

## 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) Regarding Year 15 (2008-2009) of Its Gas Cost Incentive Mechanism** on all parties identified in A.08-06-016 by electronic mail, and to Administrative Law Judge John Wong by overnight service.

Dated at Los Angeles, California, this 15<sup>th</sup> day of June 2009.

*/s/ Rose Mary Ruiz*

Rose Mary Ruiz

## CALIFORNIA PUBLIC UTILITIES COMMISSION Service Lists - Proceeding: A.08-06-016 - Last update: April 1, 2009

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