SB 695 Compliance Report
To California Public Utilities Commission, Energy Division

Southern California Gas Company

2016

Southern California Gas Company (SoCalGas) appreciates the opportunity, pursuant to Senate Bill (SB) 695 and Cal. Pub. Util. Code §913.1 (PUC Section 913.1), to recommend actions that can be undertaken during the succeeding 12 months to limit utility cost and rate increases, consistent with the state's energy and environmental goals, including goals for reducing emissions of greenhouse gases. Within the framework approved by the California Public Utilities Commission (CPUC or Commission) and the Legislature, SoCalGas seeks to allocate costs fairly across its customer classes. SoCalGas recognizes that allocations of certain components of gas service costs in rates are beyond its direct control. SoCalGas' objective in developing the 2016 report is to provide useful information that the CPUC may consider as it prepares its annual report for the Governor and Legislature.

This report is structured according to the Energy Division's request. Part I of this report addresses PUC Section 913.1(a) and provides a description of SoCalGas' gas revenue requirements and rates as well as the outlook of anticipated rate changes from May 1, 2016 through April 30, 2017, and the amount of the change if it is known.

Part II of this report addresses PUC Section 9.13.1 (b) and provides an overview of SoCalGas' overall rate policy, an overview of management control of rate components, and a summary of policies and recommendations for limiting customer rate impacts while meeting the State's energy and environmental goals for reducing greenhouse gases.

I. Section 913.1 (a) Study and Report

1. Description of Revenue Requirements

A. Major Categories of Gas Revenue Requirements as Commonly Monitored Within SoCalGas

Gas revenue requirements are commonly grouped into the following four major categories: Energy Costs or Weighted Average Cost of Gas (WACOG), Transportation, Gas Storage, and Public Purpose Programs.

Major Categories of Rate Revenue						
	2015			2016		
Revenue Component	**Rate Revenue** $000		**Percentage**	**Rate Revenue** $000		**Percentage**
Energy	$944,693	1	26.1%	$998,769	2	25.9%
Transportation 3	$2,313,770		63.9%	$2,520,332		65.4%
Storage 4	$26,476		0.7%	$26,476		0.7%
Public Purpose Program	$363,588		10.0%	$332,206		8.6%
Total	$3,622,051		100%	$3,851,308		100%

1 Actual recorded revenue.
2 Represents estimates of the residential, core C&I, and NGV energy revenue and was derived by multiplying the 2014 CGR forecast throughput projection for 2016 by the gas price forecast for 2016.
3 The transportation component includes Authorized Base Margin, amortization of regulatory accounts, other operating costs, System Integration, and Sempra-wide adjustments as of January 1, 2016, SoCalGas and SDG&E 2013 Triennial Cost Allocation Proceeding implementation.
4 A subset of transportation revenue requirement; represents costs allocated to be recovered from the Unbundled Storage Program

B. Trends in Gas Revenue Requirement Components

The revenue requirements outlined in the previous section directly align with rate components. At the highest level, gas rates can be described as revenue requirements divided by sales, so both revenue requirement changes and demand variations impact actual rates for gas service. Increases in the forecasted revenue requirements will impose upward pressure on rates and decreases in the forecasted revenue requirements will impose downward pressure on rates. The rate pressures created by changes in the revenue requirements are modulated by differences between actual sales and the prior estimates that were used to set rates. Adjustments in the allocation of the revenue requirements across customer classes and tiers also impact the rates experienced by individual customers.

Customer sales volatility over time also directly impacts the rates paid by gas customers. If revenues collected from customers are impacted (higher or lower) due to volatility in sales, future rates will be adjusted (decreased or increased) so that revenues collected are at authorized levels. SoCalGas reviews load forecasts for its service territory during cost allocation proceedings, which are currently on a three year cycle.

1) Gas energy revenue requirements are forecast to represent approximately 25.9% of the total gas revenue requirements in 2016. In 2015, gas energy revenue requirements represented about 26.1% of the total authorized gas revenue. The gas energy revenue requirements are expected to increase from 2015 to 2016 due to higher forecast throughput more than the offsetting the forecasted gas price decrease.

2) Transportation revenue requirements are estimated to be about 65.4% of the total gas revenue requirements in 2016. For 2015, the transportation revenue requirements were about 63.9% of the total authorized gas revenue requirement. The transportation revenue requirement increase for 2016 was due primarily to an authorized increase in the amortizations of regulatory accounts. Additionally, there has been an increase in revenue requirement due to the Advanced Meter project.

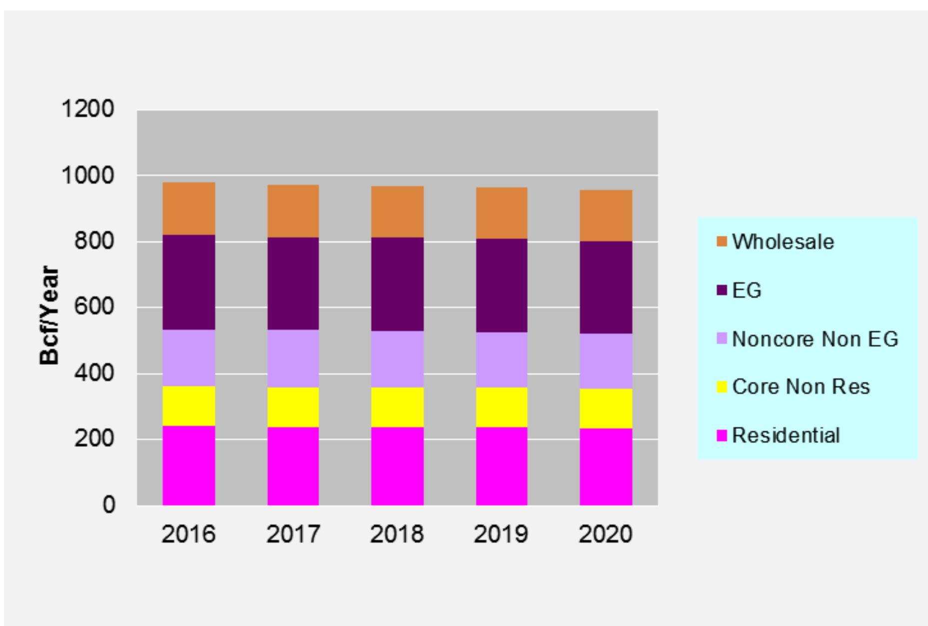
3) Costs allocated to the unbundled storage program comprised approximately 0.7% of the total gas revenue requirements in 2015, and this level is forecasted to remain unchanged in 2016.

4) Public Purpose Program (PPP) revenue requirements, including California Alternate Rates for Energy (CARE) Discount and Energy Efficiency, will represent approximately 8.6% of the total gas revenue requirements for 2016. For 2015, these programs comprised about 10% of the total authorized gas revenue requirements. This decrease in revenue requirement is occurring due to decreases in the amortization of regulatory accounts related to PPP and CARE costs.

C. Demand Forecasts

This section outlines major categories of average year gas demand forecast through 2020.

Composition of SoCalGas' Requirements (Bcf/Year)
Average Temperature and Normal Hydro Year (2016-2020)



SoCalGas Demand Forecasts (Bcf/Year)
Average Temperature and Normal Hydro Year (2016-2020)

Bcf	2016	2017	2018	2019	2020
Residential	241	239	238	236	234
Core Non Residential	120	120	121	121	121
Noncore Non EG	174	173	172	170	167
EG	287	282	284	283	282
Wholesale	159	158	156	155	155
TOTAL	980	973	970	965	958

The table above shows the projected average year[1] gas demand over the five year period covering 2016 to 2020. Gas demand in 2016 is expected to total 980 Bcf. By 2020, the load is expected to have declined to 958 Bcf. Based on the 2014 *California Gas Report* (CGR), the average year load is expected to decline steadily from 2016 to 2020. The annual rate of growth from the initial year of 2016 to the year 2020 is anticipated to be -0.46%. Average year gas demand is expected to decline in the future due to modest economic growth, CPUC-mandated energy efficiency goals and renewable electricity goals[2], declines in commercial and industrial demand and continued increased use of non-utility pipeline systems by enhanced oil recovery customers and savings linked to implementation of SoCalGas' Advanced Meter Program.

[1] The demand for gas would be higher under cold weather and dry hydro conditions. As stated in the 2014 CGR, SoCalGas plans and designs its system to provide continuous service to their core customers under an extreme peak day event. The extreme peak day design criterion is defined as a 1-in-35 likelihood event for the utility's service area. This criterion correlates to a system average temperature of 40.0 degrees Fahrenheit for SoCalGas' service area.

[2] The EG gas demand forecast is surrounded by much uncertainty, given electricity demand, relatively few customers with potential large swings in usage, and sensitivity to changes in assumptions regarding new entrants. The electricity demand forecast, upon which the EG gas demand forecast is based, was agreed to by the IOU's, the CEC, and the CPUC. (Source: California Energy Commission's California Energy Demand 2010-2020, Staff Adopted Forecast.)

2. Rate Outlook from May 1, 2015 to April 30, 2016

(A) Listing of Pending Proceedings

Following is a listing of pending proceedings that have the potential to affect rates over the 12 month period beginning May 2016. Ultimately, the timing and level of impact of these pending proceedings on rates will be determined by the Commission.

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Listing of Pending Proceedings

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate
					Total Cost	2016 RRQ	Mid-2016/2017 RRQ		
1	SoCalGas 2016 GRC Filing	A.14-11-004	11/14/2014, Revised Testimony - 03/25/2015, Settlement – 09/11/2015	2016	$122 million (6%) increase in base revenue requirement compared to 2015 (Settlement).	$2.2 billion	$2.2 billion	SoCalGas filed its most recent GRC for test year 2016. A Settlement Agreement was filed in September, 2015.	Transportation Core rates increase 2.1 cents/therm; noncore rates increase 0.01 cents/therm
2	Pipeline Safety and Reliability Memorandum Account (PSRMA) Application	A.14-12-016	Application - 12/17/2014 , Amended Application - 07/08/2015, Partial Settlement - 09/25/2015	2016	$46.2 million - Application, *$26.8 million - Amended Application and Partial Settlement agreement.		$46.2 million- Application, *$26.8 million - Amended Application and Partial Settlement agreement.	Requests reasonableness review and recovery of PSEP capital and O&M expenditures incurred and recorded in the PSRMA before June 12, 2014.	Core transportation rates increase 0.3¢/therm* (based on Application)
3	Pipeline Safety Enhancement Plan (PSEP) Phase 2	A.15-06-013	6/17/2015	2019	n/a	n/a	n/a	Requests to proceed with Phase 2 of their PSEP and establish memorandum accounts to record Phase 2 costs.	N/A

Listing of Pending Proceedings (cont)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate
					Total Cost	2016 RRQ	Mid-2016/2017 RRQ		
4	North-South Gas Transmission Pipeline Project	A.13-12-013	12/20/2013, updated 11/12/2014	2019	$621 million	n/a	n/a	Authority to collect in customer rates $621 million to construct North/South Pipeline project to enhance the reliability of the southern portion of SoCalGas' natural gas system.	Core bundled rate increase for residential customers of 1.1% for SoCalGas.
5	Pipeline Safety & Reliability Project	A.15-09-013	9/30/2015	2018	$600 million	n/a	n/a	Authority to collect in customer rates $600 million to install a new 36-inch, 47-mile long pipeline that will transport natural gas from SDG&E's existing Rainbow metering station, near the Riverside County line, to Marine Corps Air Station (MCAS) Miramar.	SoCalGas Backbone Transmission Rate increase of $.08/dth/day

Listing of Pending Proceedings (cont)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate
					Total Cost	2016 RRQ	Mid-2016/2017 RRQ		
6	SoCalGas and SDG&E 2016 Triennial Cost Allocation Proceeding Phase 1	A.14-12-017	12/18/2014	2016		n/a	n/a	Cost Allocation Proceedings reallocate costs between customer classes to maintain cost-based transportation rates. Phase 1 of this TCAP addresses costs related to the underground storage of natural gas.	Core transportation rate increase 0.4% and Noncore transportation rates increase 5.3 % for SoCalGas.
7	SoCalGas and SDG&E 2016 Triennial Cost Allocation Proceeding Phase 2	A.15-07-014	7/7/2015	2017		n/a	n/a	Cost Allocation Proceedings reallocate costs between customer classes to maintain cost-based transportation rates. Updated gas demand forecasts, cost allocation, and rate design for the three-year period of 2017-2019.	Core transportation rate decrease 14% and Noncore transportation rates decrease 9% for SoCalGas.

Listing of Pending Proceedings (cont)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate
					Total Cost	2016 RRQ	Mid-2016/2017 RRQ		
8	Recovery of the Transmission Integrity Management Program Balancing Account (TIMPBA) Balance	AL 4819	6/19/2015	Aug-16	$19 million	n/a	$19 million	To recover the under collection recorded in its TIMPBA for reasonably incurred pipeline integrity-related expenses as of the end of 2014.	Core transportation rates increase 0.1% and Noncore transportation rates increase 1.5% for SoCalGas
9	Low-Income Assistance Programs and Budgets for Program Years (PY) 2015-2017	A.14-11-011	11/18/2014	2017	CARE - $305.2 million; ESAP = $375.3 million	CARE - $135.7 million; ESAP = $132.4 million	CARE - $102.2 million; ESAP = $126.8 million	Proposals to improve upon its Energy Savings Assistance (ESA) and California Alternate Rates for Energy (CARE) programs.	Public Purpose Program Surcharge

The following is a summary of each of the above pending proceedings.

1) General Rate Case (GRC)

On November 14, 2014, SoCalGas filed its GRC application (A.14-11-004) with the CPUC for authority to update its revenue requirement to adjust base rates for Test Year 2016, and implement a post-test year ratemaking mechanism for 2017-2018. Through this application, SoCalGas seeks a revenue requirement for the GRC cycle (2016-2018) that will allow it to operate safely and reliably at reasonable rates over the GRC cycle. SoCalGas originally requested approval of $2.4 billion in revenue requirement for 2016, which is an increase of $256 million over 2015.

In September 2015, SoCalGas, in conjunction with seven intervening parties, filed settlement agreements with the CPUC that proposed a 2016 revenue requirement of $2.2 billion (or a $122 million increase over 2015), and resolved the contested issues among settling parties (without prejudice) for this GRC cycle, except for a discreet tax issue associated with the repairs deduction. Settling parties also agreed to a 3.5 percent post-test year increase for both 2017 and 2018. A CPUC final decision on the proposed settlements is pending as of the date of this data response.

2) Pipeline Safety and Reliability Memorandum Account

On December 17, 2014, SoCalGas and SDG&E filed a joint application (A.14-12-016) requesting recovery of a portion of costs recorded in their respective Pipeline Safety and Reliability Memorandum Account (PSRMAs). In D.14-06-007, SoCalGas and SDG&E were authorized to file this Application to justify and recover O&M costs recorded in the PSRMAs through June 12, 2014 (the effective date of the decision) and capital-related costs associated with projects completed prior to the June 12, 2014. SoCalGas and SDG&E request that the Commission find reasonable the costs incurred, as well as the associated revenue requirement, which is $26.8 million for SoCalGas and $0.08 million for SDG&E, to be recoverable in rates.

3) Pipeline Safety Enhancement Plan (PSEP) Phase 2

On June 17, 2015, SoCalGas and SDG&E filed a joint application (A.15-06-013) requesting to proceed with Phase 2 of their PSEP and establish memorandum accounts to record Phase 2 costs.

4) North-South Gas Transmission Pipeline Project

SoCalGas and SDG&E filed a joint application (A.13-12-013) with the CPUC in December 2013 seeking authority to recover the revenue requirement associated with the North-South Gas Transmission Pipeline Project and related cost allocation and rate design proposals. The project will support Southern System reliability and enhance the utilities' ability to fulfill their mission to provide safe and reliable gas service to their customers. The estimated $856 million project consists of two components: (1) constructing a 36-inch gas transmission pipeline between the Adelanto and Moreno compressor stations and (2) upgrading the Adelanto compressor station. The proposed project has a projected in-service date of 4th quarter 2019. A Commission decision is not expected until 2016.

5) Pipeline Safety & Reliability Project

On September 30, 2015, SoCalGas and SDG&E filed a joint application (A.15-09-013) with the CPUC requesting a Certificate of Public Convenience and Necessity (CPCN) to install a new 36-inch, 47-mile long pipeline that will transport natural gas from SDG&E's existing Rainbow metering station, near the Riverside County line, to Marine Corps Air Station (MCAS) Miramar. SDG&E is requesting a CPUC decision by January 2017 and, once approved, the roughly $600 million project will take about 12-18 months to construct and place in service.

6) Triennial Cost Allocation Proceeding (TCAP) Phase 1

SoCalGas filed an application (A.14-12-017) on December 18, 2014, to update the allocation of the costs of providing gas service to customer classes and determine the transportation rates it charges to customers. These costs have been previously authorized by the CPUC for recovery in rates. This Phase 1 Application includes updating the allocation of costs related to the underground storage of natural gas for the period 2016 through 2019. The Phase 1 Application would impact SoCalGas transportation rates by $4 million.

On August 31, 2015, seven out of active ten parties filed a Settlement Agreement to resolve all contested issues. A final CPUC decision on Phase 1 that will impact rates is expected in 2016.

7) Triennial Cost Allocation Proceeding (TCAP) Phase 2

SoCalGas filed an application (A.15-07-014) on July 7, 2015, to update the allocation of the costs of providing gas service to customer classes and determine the transportation rates it charges to customers. These costs have been previously authorized by the CPUC for recovery in rates. SoCalGas also forecasts how much gas its customers may use, its balancing accounts, and the gas prices used to calculate various rate components. This Phase 2 Application includes updating the allocation of all non-storage related costs for the period 2017 through 2019.

8) Advice Letter No. 4819 Request for Recovery of the Transmission Integrity Management Program Balancing Account (TIMPBA) Balance

Pursuant to Commission Decision (D.) 13-05-010 approving SoCalGas' 2012 GRC application, the TIMPBA was established to record the difference between authorized and actual Operations and Maintenance (O&M) and capital –related costs associated with SoCalGas' TIMP. The TIMPBA was effective for the four-year GRC cycle ending December 31, 2015, or the effective date of SoCalGas' next GRC. Any over or under collected balance at the end of each year within the GRC cycle is to be carried over to the following year. In addition, in accordance with Finding of Fact 202 of D.13-05-010, expenditures that exceed authorized levels are subject to recovery through a Tier 3 advice letter filing. As of December 31, 2014, the TIMPBA was $19.1 million under collected. The recorded under collection for the 2014 period was comprised of O&M expenses of approximately $12.5 million and TIMP-related capital expenses of approximately $6.6 million. A Commission Resolution approving Advice Letter No. 4819 is expected in 2016 for rates effective August 1, 2016.

9) Low-Income Assistance Programs and Budgets for Program Years (PY) 2015-2017

On November 18, 2014, SoCalGas filed an application with the CPUC (A.14-11-011) and presented proposals to improve upon its Energy Savings Assistance (ESA) and California Alternate Rates for Energy (CARE) programs. These proposals include strategies, plans, measures, policies, and budgets designed to increase the programs' enrollment and overall delivery, as well as help customers reduce their energy bills, promote energy conservation, and assist customers in order to avoid service disconnections. SoCalGas did not request funding for PY 2015 since the Commission authorized funding in D.14-08-030 at the authorized 2014 budget level, for a 12-month period from January 1, 2015 to December 31, 2015. The requested revenue requirements for CARE administrative costs are $9.8 million, and $9.6 million for PY 2016 and 2017, respectively. The requested revenue requirements for ESA program costs are $126.8 million, and $129.3 million for PY 2016 and 2017, respectively. SoCalGas is currently operating on bridge funding while awaiting a PD in this proceeding.

(B) **New Proceedings Likely to be Filed Between Now and April 30, 2017**

<u>GCIM Year 22</u>

SoCalGas will file its GCIM Year 22 application in June 2016. SoCalGas is required to file an application and report in June of each year to address its performance under the GCIM for the previous April 1- March 31 period (GCIM Year).

<u>Pipeline Safety Enhancement Plan Reasonableness Review</u>

SoCalGas and SDG&E anticipate filing an application in 2016 for after-the-fact reasonableness review and cost recovery of a portion of PSEP Phase 1 costs recorded in the Pipeline Safety and Reliability Memorandum Accounts (PSRMAs), Safety Enhancement Capital Cost Balancing Accounts (SECCBAs), and Safety Enhancement Expense Balancing Accounts (SEEBAs). D.14-06-007 authorized SoCalGas and SDG&E to file annual cost recovery applications to review the reasonableness of completed capital projects included in the accounts and annual (or multi-year) expenses.

Pipeline Safety Enhancement Plan Phase 2 Bridging Application

SoCalGas and SDG&E anticipate filing a PSEP Phase 2 forecast application in early 2017. PSEP Phase 2 will address pipelines operated in less populated areas, as well as pipelines that were pressure tested prior to the adoption of Federal pressure testing regulations in 1971.

Cost of Capital

On November 25, 2015, the CPUC provided an extension of the date by which SoCalGas must file its next cost of capital application, from April 20, 2016 to April 20, 2017. A cost of capital proceeding determines a utility's authorized capital structure and authorized rate of return on rate base (ROR), which is a weighted average of the authorized returns on debt, preferred stock, and common equity (return on equity or ROE), weighted on a basis consistent with the authorized capital structure. The authorized ROR, which is currently 8.02%, is the rate that SoCalGas is authorized to use in establishing rates to recover the cost of debt and equity used to finance their investment in natural gas assets. In addition, a cost of capital proceeding also addresses the automatic ROR adjustment mechanism, which applies market-based benchmarks to determine whether an adjustment to the authorized ROR is required during the interim years between cost of capital proceedings. As part of the recent CPUC action to provide an extension of the date to file the next Cost of Capital application, the Joint Investor Owned Utilities (IOUs), ORA, and TURN mutually agreed to request no changes to the authorized costs of capital for 2017, regardless of what the Cost of Capital Mechanism (CCM) would have indicated. To effectuate this agreement, the joint parties were directed by the CPUC to file a Petition for Modification of D.13-03-015, which was filed on December 23, 2015 and was approved at the February 25, 2016 Commission meeting.

TIMPBA Tier 3 Advice Letter Filing

In accordance with Finding of Fact 202 of D.13-05-010, TIMP costs in excess of authorized O&M and capital expenditures are subject to recovery through a Tier 3 Advice Letter filing. SoCalGas expects to file a Tier 3 AL in 2016 to recover 2015 undercollected costs of approximately $17 million.

(C) Anticipated Rate Changes During 2016

In addition to potential rate changes due to pending decisions or resolutions in the General Rate Case, TCAP Phase 1, and TIMBA Tier 3 AL as described above, rates are updated each year through the recurring advice letters listed in table below.

Southern California Gas Company
Anticipated Rate Changes During 2016

Description	To Be Filed	Expected Implementation	Impacted Rate	Directional Impact	Revenue Requirement Impact ($000)	Reason for Revenue Requirement Request
Gas Regulatory Account Update AL	October 2016	January 2017	Gas Transportation	Increase	$187,576	(1)
Gas Consolidated AL	December 2016	January 2017	Gas Transportation	Increase	$200,730	(1) (2)
Gas Public Purpose Program Update AL	October 2016	January 2017	PPP Surcharge	Decrease	($31,382)	(1)

(1) Shows change from 2015 to 2016. This is an annual routine filing in which the specific financial impact for 01/2017 has not been determined.
(2) Gas Consolidated AL 4910 shows change from 2015 to 2016.

Gas Regulatory Account Update AL - This advice letter serves to update the amounts in the regulatory accounts to be amortized in rates over the next year.

Gas Consolidated AL - This advice letter consolidates advice letters that are routinely filed each year to be placed in rates the next year. This includes items such as the regulatory Account Update, authorized cost changes for the Advanced Meter Infrastructure and any attrition index authorized in the General Rate Case to be applied to the revenue requirement.

Gas Public Purpose Program Update AL - The state's natural gas and electric utilities collect funds from core and non-EG noncore customers for gas related energy efficiency programs, low-income programs including the California Alternative Rates for Energy (CARE) subsidy, and for the California Energy Commission's natural gas research and development program. The annual budget for these public purpose programs is set in various recurring program-related Commission proceedings. The CARE program revenue requirement for SoCalGas' customers in 2015 was $136 million and is $100 million in 2016.

II Section 913.1 (b) Study and Report

1. Opening comments

In this part, SoCalGas addresses PUC Section 913.1 (b) and provides an overview of SoCalGas' overall rate policy, an overview of management control of rate components, and a summary of policies and recommendations for limiting customer rate impacts while meeting the State's energy and environmental goals for reducing greenhouse gases. SoCalGas hopes that the CPUC will consider the recommendations set forth in this report, which SoCalGas believes can have a measurable near-term impact on its total cost of delivering safe, reliable, cost-effective gas services to its customers in California.

2. Overall Rate Policy

Absent market based prices for natural gas transportation service, SoCalGas' overall rate policy is to follow the cost causation principle whereby rates are based on the costs incurred to provide its customers with safe and reliable gas service. SoCalGas understands that its customers value safety, low rates, transparency and stability. Therefore, SoCalGas also seeks to minimize the impact of rate adjustments when they are made by phasing in impacts to avoid rate shock whenever possible. SoCalGas, like the other gas utilities in California, makes monthly advice letter filings that are publicly available to change the gas commodity rate which is based on the monthly cost of gas. SoCalGas also files for an annual gas transportation and Public Purpose Program surcharge rate change in January of each year. In addition, SoCalGas submits any required rate update filings within the year in response to specific Commission decisions that affect SoCalGas' revenue requirement.

The cost causation principle discussed above drives SoCalGas rate policy for both the allocation of costs between customer classes as well as within customer classes. When examining intra-class rate structures, costs should be recovered in rates that reflect how those costs are incurred, and SoCalGas will propose changes when it appears that an intra-class subsidy may be occurring.

In the TCAP Phase 2 application, filed on July 7, 2015 (A.15-07-014), SoCalGas has proposed changes to align residential rates more closely with the underlying costs of serving residential customers. Residential rates have a customer charge, and a two-tiered volumetric charge with a higher second tier rate. The customer charge (the charge a customer incurs at zero level of gas consumption) is to recover the fixed cost of hooking up a customer to SoCalGas' delivery system. These fixed costs include installation and maintenance of the gas service lines, meters, regulators, meter reading, customer billing, maintenance of facilities, and vehicles and equipment. The current monthly customer charge of approximately $5 per month was set by the Commission in December 1994 (D.94-12-052) and has not changed since then, while the fixed costs of customer hookup have since gone up. The fixed customer costs that are not recovered in the customer charge are recovered in the volumetric rates, causing volumetric rates to be higher than the underlying variable costs. Therefore, in the TCAP Phase 2 application, SoCalGas has proposed to increase the residential customer charge to approximately $10/month while at the same time reducing volumetric rates. The proposed rate design would align with cost causation and reduce intra-class subsidies. It would also reduce bill volatility, resulting in customers' bills fluctuating less from month to month and mitigating extremely high bills under extreme cold weather.

3. Management Control of Rate Components

In order to keep rates reasonable, SoCalGas works to proactively lower gas costs and participates actively in interstate pipeline rate cases to make sure that transportation costs are just and reasonable. Also, in addition to safety and reliability, SoCalGas prioritizes operational efficiency and cost containment. In light of these priorities, SoCalGas performs continuous reviews of its systems and operations to identify areas for improved performance. Performance based incentive mechanisms, such as the Gas Cost Incentive Mechanism, align shareholder and customer interests and result in operational efficiencies and lower rates. However, there are some key drivers that affect customers' rates that fall outside of SoCalGas' control. These include: gas commodity prices, actual sales volumes, weather, natural disasters, interest rates, economic and demographic growth, permitting process delays, and compliance with new environmental regulations and CPUC requirements.

Despite these factors, SoCalGas works hard to manage its costs across all categories to make efficient and effective use of revenues collected from customers.

4. Utility Policies and Recommendations for Limiting Costs and Rate Increases While Meeting State's Energy and Environmental Goals for Reducing Greenhouse Gases

In this section, SoCalGas offers a set of recommendations for actions that the Commission may consider as it prepares its own annual report to the Legislature and Governor on measures that can be undertaken in the coming year to limit utility costs and rate increases. These recommendations center on factors largely out of the scope of the utilities' control, and are expected to have a significant impact on utility costs and resultant customer rates in the near- to medium-term.

SoCalGas continues to use best operating and infrastructure investment practices to limit rate increases while still meeting California's energy efficiency and greenhouse gas reduction goals. SoCalGas supports the State's Energy Action Plan by promoting all mandated energy efficiency programs. SoCalGas is working with regulators and other stakeholders on the regulation being developed by the California Air Resources Board to implement the AB 32 Cap and Trade program, such that it is fair and as cost-effective as possible. SoCalGas has also received regulatory approval to participate in the development of renewable energy sources, such as biogas and distributed energy, which will reduce GHG emissions in California. Biogas and renewable energy resources provide environmental benefits and are useful alternatives to contracting for capacity on interstate pipelines.

The impact to SoCalGas' customers from energy efficiency, low income energy efficiency, CARE, technology research, development, and demonstration (RD&D) is shown below.

REVENUE REQUIREMENT AS OF 1/1/15 $ millions			
	Core	**Non-Core**	**Total**
Energy Efficiency	$79	$7	$86
Low Income Energy Efficiency	$132	$0	$132
CARE	$64	$3649	$100
RD&D	$13	$0	$13

Natural gas is a clean, abundant and affordable energy source that can help California address climate change, and reduce smog while supporting a strong economy, and policy that delivers choice to our customers at reasonable rates puts our state in the best positon to successfully achieve its goals. In the coming year, SoCalGas recommends that several key State policies and procedures should be shaped to support more effective, efficient and beneficial use of revenues collected from SoCalGas' customers. SoCalGas believes that the State will have to weigh its environmental goals that cause significant upward cost pressures against its desire to moderate impacts on customers' rates for gas service. Here is a list of items in which policy decisions could drive customer rate impacts.

1. SoCalGas has proposed a cost-effectiveness framework in the Natural Gas Leak Abatement Rulemaking, R.15-01-008, to align with the intent of Senate Bill (SB) 1371 to achieve the maximum technologically feasible and cost-effective greenhouse gas emission reductions across operational areas such as transmission, storage, and distribution.[3] SoCalGas has encouraged the adoption of objective criteria that will be used to develop a list of cost-effective, technologically feasible mitigation activities and technologies that help achieve methane emission reductions in top emissions source categories. This proceeding is ongoing and a decision for Phase I which aims to

[3] *See* SB 1371 (Statutes 2014, Chapter 525), codified in CAL. PUB. UTIL. CODE § 975 (h)(1).

develop the overall policies and guidelines for a natural gas leak abatement program consistent with SB 1371 is expected in 2016.

2. Combined Heat and Power (CHP): CHP reduces overall energy use by using waste heat to generate power. Efficient CHP entails low carbon generation and its widespread use will have greenhouse gas reducing benefits. Both the CPUC and the California Energy Commission have supported the development of CHP to meet California's energy needs because this source has the potential to contribute substantially to reducing California's Greenhouse Gas Emissions.[4] SoCalGas supports policies and programs that encourage the installation of CHP.

3. Recommend that State policy regarding the promotion of renewable energy to generate electricity does not overlook the benefits of fuel cell technology. Fuel cell technology allows for more reliable generation of electricity. A State policy promoting this use at the residential level for the generation and water heating has the potential for significant emission reductions.

4. SoCalGas recommends that flexibility be given to utilities in their energy efficiency and greenhouse gas programs in order to allow utilities to respond quickly to customer and market demands. The regulatory application process could expedite the launch of new products and services. By authorizing more limited market or technology applications and pilot programs an expedited decision process may be achieved.

5. Performance-Based Incentives Mechanisms: Continue to support the utilization of performance-based mechanisms to motivate utilities to implement programs that will lead to an overall reduction in costs and improve the efficiency of utility operations. These mechanisms work because (1) they align customers' and shareholder interests; (2) they measure a utility's performance relative to a market-based benchmark; and (3) they reduce the regulatory burden.

6. California Alternative Rates for Energy (CARE): CARE customers comprise one quarter of SoCalGas' residential volume. Non-CARE customers must cover the CARE

[4] Order Instituting Rulemaking to Implement the Commission's Procurement Incentive Framework and to examine the Integration of GHG Standards in its Procurement Policies, pp. 221, R.06-04-009.

shortfall, which is 4% of transportation costs. Safeguards should be taken so that only qualified customers are participating in the CARE program.

7. Reporting Requirements: In the past, SoCalGas has recommended that mandated reporting requirements be reviewed to make sure they are useful and non-duplicative. The Commission has recently initiated Rulemaking (R.) 15-12-006 to address the revision or repeal of General Orders and utility reporting requirements. SoCalGas supports recommendations to streamline Commission reporting requirements.

In summary, California leads the nation in promoting the reduction of GHG emissions, adoption of advanced technologies, and expenditures on public purpose programs mandated by law. The costs associated with implementing these policies place upward pressure on utilities' rates. In addition, due to the mild weather and implementation of energy efficiency measures, the gas usage per customer in California is far below the national average. These factors lead to higher rates overall but also lower customers' bills. SoCalGas supports the above-referenced policies. To promote achievement of these important statewide goals, utilities should be provided more flexibility in implementing mandates and requirements in order to achieve lower costs for all customers.