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

Southern California Gas Company

2015

Southern California Gas Company (SoCalGas) appreciates the opportunity, pursuant to Senate Bill (SB) 695 and Cal. Pub. Util. Code §748 (PUC Section 748), 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 2015 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 748 (a) and provides a description of SoCalGas' gas revenue requirements and rates as well as the outlook of anticipated rate changes from May 1, 2015 through April 30, 2016, and the amount of the change if it is known.

Part II of this report addresses PUC Section 748 (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 748 (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 Revenue Requirements				
	2014		2015	
Revenue Component	**Revenue Requirement** $000	**Percentage**	**Revenue Requirement** $000	**Percentage**
Energy	$1,439,170 1	37.4%	$1,352,923 2	33.7%
Transportation 3	$2,119,329	55.1%	$2,294,277	57.2%
Storage 4	$26,476	0.7%	$26,476	0.7%
Public Purpose Program	$287,905	7.5%	$363,588	9.1%
Total	$3,846,404	100%	$4,010,788	100%

[1] 2014 is actual recorded revenue.
[2] 2015 represents estimates of the residential, core commercial and industrial, and natural gas vehicles energy revenue and was derived the by multiplying the 2014 California Gas Report throughput projection by the recent gas price forecast for the year 2015.

[3] The transportation component includes Authorized Base Margin, amortization of regulatory accounts, other operating costs, SoCalGas' and SDG&E's Gas Transmission System Integration, and other Sempra-wide adjustments.

[4] A subset of transportation revenue requirement, represents allocated costs 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) in order to ensure 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 33.7% of the total gas revenue requirements in 2015. In 2014, gas energy revenue requirements represented about 37.4% of the total authorized gas revenue. The gas energy revenue requirements are expected to decrease from 2014 to 2015 due to forecasted lower natural gas prices.

2) Transportation revenue requirements are estimated to be about 57.2% of the total gas revenue requirements in 2015. For 2014, the transportation revenue requirements were about 55.1% of the total authorized gas revenue requirement. The transportation revenue requirement increase for 2015 was due primarily to the attrition mechanism authorized in SoCalGas' General Rate Case, an authorized increase in the revenue requirement for the Advanced Meter project, and increases in the amortizations of regulatory accounts.

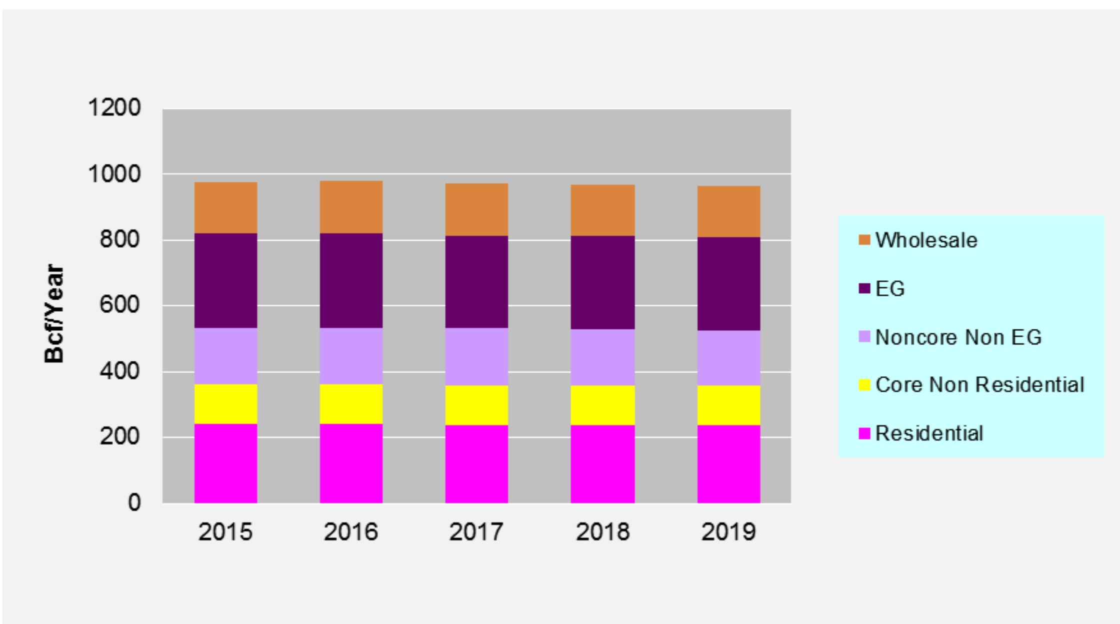
3) Costs allocated to the unbundled storage program comprised approximately 0.7% of the total gas revenue requirements in 2014, and this level is forecasted to remain relatively unchanged in 2015.

4) Public Purpose Program (PPP) revenue requirements, including California Alternate Rates for Energy (CARE) Discount and Energy Efficiency, will represent approximately 9.1% of the total gas revenue requirements for 2015. For 2014, these programs comprised about 7.5% of the total authorized gas revenue requirements. This increase is occurring because increases 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 2019.

Composition of SoCalGas' Requirements (Bcf/Year)
Average Temperature and Normal Hydro Year (2015-2019)



SoCalGas Demand Forecasts (Bcf/Year)
Average Temperature and Normal Hydro Year (2015-2019)

Bcf	2015	2016	2017	2018	2019
Residential	243	241	239	238	236
Core Non Residential	118	119	120	120	120
Noncore Non EG	174	174	173	172	170
EG	288	287	282	284	283
Wholesale	155	158	158	155	154
TOTAL	977	979	971	969	963

The table above shows the projected average year[1] gas demand over the five year period covering 2015 to 2019. Gas demand in 2015 is expected to total 977 Bcf. By 2019, the load is expected to have declined to 963 Bcf. Based on the 2014 *California Gas Report* (CGR), the average year load is expected to rise slightly in year 2016 and then decline thereafter. The annual rate of growth from the initial year of 2015 to the year 2019 is anticipated to be -0.36%. 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.

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

(A) Listing of Pending Proceedings

[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.)

Following is a listing of pending proceedings that have the potential to affect rates over the 12 month period beginning May 2015. Ultimately, the timing and level of impact of these pending proceedings on rates will be determined by the Commission.

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	2015 RRQ	2016 RRQ		
1	SoCal Gas 2016 GRC Filing	A.14-11-004	11/14/2014	2016	$256 million (12%) increase in base revenue requirement compared to 2015.	$2.1 billion	$2.4 billion	SoCalGas filed its most recent GRC for test year 2016.	Tranportation Core rates increase 5.7 cents/therm; noncore rates increase 0.14 cents/therm
2	Pipeline Safety and Reliability Memorandum Account (PSRMA) Application	A.14-12-016	12/17/2014	1/1/2016	$46.2 million		$46.2 million	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
3	Greenhouse Gas OIR	R.14-03-003		2015	$79 million in GHG costs, $73 million in GHG allowance revenues to return to customers	$79 million in GHG costs, $73 million in GHG allowance revenues to return to customers		This rulemaking addresses issues related to GHG costs and revenues of natural gas utilities resulting from the implementation of the California Air Resources Board's GHG cap-and-trade program.	GHG Surcharge of 2¢/therm for GHG costs; revenue return methodology unkown
4	North-South Gas Transmission Pipeline Project	A.13-12-013	12/20/2013, updated 11/12/2014	2020	$856 million	n/a	n/a	Authority to collect in customer rates $856 million to construct North/South Pipeline project to enhance the reliability of the southern portion of SoCalGas' natural gas system.	Backbone Transportation Service rate impact of 1.3 cents/therm
5	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.
6	Recovery of the Transmission Integrity Management Program Balancing Account (TIMPBA) Balance	AL 4632	4/11/2014	2016	$29 million	n/a	$29 million	To recover the under collection recorded in its TIMPBA for reasonably incurred pipeline integrity-related expenses as of the end of 2013.	Core transportation rates increase 1.5% and Noncore transportation rates increase 1.3% for SoCalGas
7	Low-Income Assistance Programs and Budgets for Program Years (PY) 2015-2017	A.14-11-011	11/18/2014	2016	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 short summary of the requested amount of revenue requirement change for each of the above pending proceedings and the reasons for it.

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 the subsequent attrition years (2017-2018). Through this application, SoCalGas seeks to recover the costs that will be incurred in 2016 to deliver safe and reliable natural gas service to customers at reasonable rates. SoCalGas is requesting approval of $2.352 billion in revenue requirement to be effective January 1, 2016. If approved, this revenue requirement would be an increase of $256 million over the estimated 2015 revenue requirement, or a 12% increase.

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 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 PSRMA's through June 12, 2014 (the effective date of the decision) and capital-related costs associated with projects completed prior to the June 12, 2014. The application requests that the Commission find reasonable the costs incurred, as well as the associated revenue requirement recorded in the PSRMAs, which is $46.2 million for SoCalGas and $0.08 million for SDG&E, to be recoverable in rates.

3) Greenhouse Gas (GHG) Rulemaking for Natural Gas Utilities Cap-and-Trade Program Cost Recovery – Phase 2

On March 19, 2014, the Commission issued a Rulemaking proceeding (R.14-03-003) to address issues related to GHG costs and revenues of natural gas utilities resulting from the implementation of the California Air Resources Board's (ARB) GHG cap-and-trade program. Beginning on January 1, 2015, the Cap-and-Trade Program expanded to include emissions from all SoCalGas customers. SoCalGas is required to purchase carbon allowances or offsets on behalf of its end-use customers for the emissions generated from the full combustion of the natural gas delivered. Large end-use customers who emit at least 25,000 metric tons of CO_2 equivalent per year have a direct obligation to the ARB for their own emissions; therefore, SoCalGas' obligation does not include these customers. Phase 2 of the GHG rulemaking will determine how the costs related to compliance with the Cap-and-Trade program will be included in end-use customers' rates. The rulemaking will also address how revenues generated from the sale of directly allocated allowances will be returned to ratepayers. SoCalGas expects the rulemaking to be resolved later in 2015. For 2015, SoCalGas has forecasted compliance costs to be about $79 million and consignment revenues to be about $73 million.

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) 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. A final CPUC decision on Phase 1 that will impact rates is expected in 2015. The Phase 1 Application would impact SoCalGas transportation rates by $4 million. The Phase 2 Application is detailed in Section 2(B) of this report.

6) Advice Letter No. 4632 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 is 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, 2013, the TIMPBA is $29 million under collected. The recorded under collection for the 2012-2013 period is comprised of O&M expenses of approximately $28.1 million and TIMP-related capital expenses of approximately $0.9 million.

7) 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 is not requesting 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.

(B) New Proceedings Likely to be Filed Between Now and April 30, 2016

GCIM Year 21

SoCalGas will file its GCIM Year 21 application in June 2015. 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).

Triennial Cost Allocation Proceeding (TCAP) Phase 2

SoCalGas plans to file its Phase 2 TCAP application in summer 2015 to update the allocation of the non-storage related 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. Storage-related costs are being addressed in the TCAP Phase 1 Application detailed in Section 2(A) of this report, Listing of Pending Proceedings. This Phase 2 Application will include updating the allocation of all other costs related to gas transportation service, as well as the demand forecasts used to set rates, for a three-year period of 2017-2019. A final CPUC decision on Phase 2 that will impact rates would be expected in late-2016. The rate impacts of the Phase 2 TCAP Application are unknown at this time.

Pipeline Safety Enhancement Plan Phase 2

SoCalGas and SDG&E anticipate filing an application in 2015 for the approval of Phase 2 of the Pipleine Safety Enhancement Plan (PSEP), which will address pipelines located in less populated areas. Pipelines included in this phase do not have sufficient documentation of a pressure test to at least 1.25 times the Maximum Allowable Operating Pressure of the pipeline.

Pipeline Safety Enhancement Plan – Line 1600 Pipeline Replacement

SoCalGas and SDG&E anticipate filing an application in the second quarter of 2015 for approval to construct a replacement natural gas pipeline for Line 1600 in San Diego to address Pipeline Safety Enhancement Plan as well as system reliability and capacity concerns. The Project will enable SDG&E to continue to meet the obligation to provide safe and reliable natural gas service.

Cost of Capital

SoCalGas is currently scheduled to file its next Cost of Capital application on April 20, 2016. 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.

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 2015 to recover 2014 costs of approximately $19 million.

(C) Anticipated Rate Changes During 2015

Rates are updated each year through the advice letters listed in table below.

Anticipated Rate Changes During 2015

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 2015	January 2016	Gas Transportation	Increase	$93,561	(1)
Gas Consolidated AL	December 2015	January 2016	Gas Transportation	Increase	$173,832	(1) (2)
Gas Public Purpose Program Update AL	October 2015	January 2016	PPP Surcharge	Decrease	$75,683	(1)

(1) Shows change from 2014 to 2015. This is an annual routine filing in which the specific financial impact for 01/2016 has not been determined.
(2) Gas Consolidated AL 4730 shows change from 2014 to 2015.

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 attrition index authorized in the 2012 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 2014 was $102.4 million and is $135.7 million in 2015.

II Section 748 (b) Study and Report

1. Opening comments

In this part, SoCalGas addresses PUC Section 748 (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 required 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 various filings to the Commission throughout the year in response to specific Commission directives or changes to the utility business.

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 and economic 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 to ensure that the regulation being developed by the California Air Resources Board to implement the AB 32 Cap and Trade program 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, that 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	$76	$6	$82
Low Income Energy Efficiency	$132	$0	$132
CARE	$86	$49	$136
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. 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.[3] SoCalGas supports policies and programs that encourage the installation of CHP.

2. 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.

3. 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 (such as Biogas and Compression Services). By authorizing more limited market or technology applications and pilot programs an expedited decision process may be achieved.

4. 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.

5. California Alternative Rates for Energy (CARE): CARE customers now comprise one quarter of SoCalGas' residential volume. Non-CARE customers must cover the CARE shortfall, which is 6% of transportation costs. Safeguards should be taken to ensure only qualified customers are participating in the CARE program.

6. Reporting Requirements: Mandated reporting requirements should be reviewed to make sure they are useful and non-duplicative.

[3] 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.

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.