PRELIMINARY STATEMENT

Sheet 1

IV. BALANCING ACCOUNTS

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

BALANCING ACCOUNTS

Balancing Accounts are accounts where expenses are compared with revenues from rates designed to recover those expenses; forecasted expenses are compared with recorded expenses; or forecasted revenues are compared with recorded revenues. The resulting over or undercollection, plus interest, as described hereunder, is recorded on the utility's financial statement as an asset or liability, which is owed from or due to the ratepayers. These balances are amortized in future rates, as approved by the Commission.

A. PURCHASED GAS ACCOUNT (PGA)

1. Description

This balancing account shall record the difference between all gas expenses, excluding pipeline demand charges and related fixed cost interstate charges, and revenues related to the purchase and sale of gas supplies to all utility customers. This account shall be divided into three subaccounts: core, core subscription, and noncore.

2. Accounting Treatment - Core PGA

This subaccount shall be recorded at the end of each month as follows:

a. Expenses shall equal:

(1) The recorded cost of gas purchases, including brokerage-related service costs, for core customers during the month; including any miscellaneous costs for additional fees and surcharges associated with the procurement and delivery of gas to the SoCalGas system, plus

(2) Expenses related to off-system sales and Gas Futures transactions, plus

(3) Buyback Purchase Costs, which reflect utility purchases of core customer's gas deliveries that are 10% above actual usage, during the month.

(4) The recorded charges for interstate pipeline capacity allocated to core customers and computed in the following manner:

(a) The full amount of as-billed pipeline charges incurred by the utility for securing reservations of interstate capacity to serve core customers; less the above market costs for capacity on the El Paso pipeline system; plus
(b) Any additional pipeline charges incurred by the utility for acquiring interstate capacity to serve core requirements in excess of core reservations of interstate capacity. Core capacity requirements in excess of core reservations shall be served from a pool of interstate pipeline capacity acquired by the utility on a brokered basis.
(c) Charges shall also include El Paso Turned Back Capacity charges as authorized in Decision 04-01-047.

(5) The recorded cost of transmission access rights acquired for core customers. N

(6) An entry equal to the El Paso settlement proceeds received pursuant to the Master Settlement Agreement approved by the FERC and CPUC (D.03-10-087). The total amount credited to the Core PGA for the settlement proceeds shall be reduced by the net present value of the refund allocated to core aggregation, core subscription and noncore customers. T

(7) An entry equal to the FERC settlement proceeds associated with the 2000-2001 energy crisis. The settlement proceeds shall be reduced by the refund allocated to core aggregation, core subscription and noncore procurement customers. T

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

A. PURCHASED GAS ACCOUNT (PGA) (Continued)

2. Accounting Treatment - Core PGA

b. Revenues shall equal:

(1) All utility charges derived from the sale of gas delivered to core customers, including Transmission Access Rights charges, under Schedule GPC, during the month; plus T
(2) All utility charges derived from off-system sales and gains or losses from Gas Futures transactions; plus
(3) All utility charges derived from the sale of gas under contract to core customers as though billed at the Schedule GPC rate; plus
(4) Core Capacity Charge revenues collected under Schedule GPC, plus any surcharge fees collected on this amount; less T
(5) Any surcharge fees (such as the City of San Diego Franchise Fee Differential) that are collected as a part of the procurement revenues stated above; less T
(6) An allowance for FF&U on the net of the sum of (1) thru (4) above. T

c. The current month balance shall equal the expenses computed in 2.a. above less the revenues computed in 2.b above.

d. The accumulated month-ending balance shall equal the sum of:

(1) The current month balance; plus the account balance at the beginning of the month; plus any adjustments applicable to the account balance at the beginning of the month; plus
(2) The Monthly Interest Rate multiplied by one-half the sum of the account balance at the beginning of the month plus the account balance at the end of the month.

e. A portion of the resulting balance in this account may be amortized into core procurement rates whenever the utility files a change for the rate.

3. Accounting Treatment - Core Subscription PGA

This subaccount shall be recorded at the end of each month as follows:

a. Expenses shall equal:

(1) The recorded total cost of gas purchases, including brokerage-related service costs, for core subscription customers during the month, including any miscellaneous costs for additional fees and surcharges associated with the procurement and delivery of gas to the SoCalGas system; plus
(2) Costs incurred from interstate pipeline capacity acquired by the utility on behalf of all utility procurement customers which has been allocated to core subscription procurement customers based on actual monthly usage; plus
(3) Expenses related to off-system sales and Gas Futures transactions.
(4) The recorded cost of transmission access rights acquired for core subscription customers. N N

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

A. PURCHASED GAS ACCOUNT (PGA) (Continued)

3. Accounting Treatment - Core Subscription PGA (Continued)

b. Revenues shall equal:

(1) All procurement charges derived from the sale of gas delivered to utility core subscription customers, including Transmission Access Rights charges, at the posted GCORE price during the month; plus T
(2) Core Subscription Capacity Charge revenues collected under Schedule GCORE, plus any surcharge fees collected on this amount; plus
(3) All procurement charges derived from off-system sales and gains or losses from Gas Futures transactions; less T
(4) An allowance for F&U on the net of procurement revenues less surcharges above. N

c. The current month balance shall equal the expenses computed in 3.a. above less the revenues computed in 3.b. above.

d. The accumulated month-ending balance shall equal the sum of:

(1) The current month balance; plus the account balance at the beginning of the month; plus any adjustments applicable to the account balance at the beginning of the month; plus

(2) The Monthly Interest Rate multiplied by one-half the sum of the account balance at the beginning of the month plus the account balance at the end of the month.

e. A portion of the resulting balance in this account may be amortized into core subscription procurement rates whenever the utility files for a change in the rates.

4. Accounting Treatment - Noncore PGA

This subaccount shall be recorded at the end of each month as follows:

a. Expenses shall equal:

(1) The recorded cost of gas purchases, including brokerage-related service costs, for noncore customers during the month; including any miscellaneous costs for additional fees and surcharges associated with the procurement and delivery of gas to the SoCalGas system; plus
(2) Costs incurred from interstate pipeline capacity acquired by the utility on behalf of all utility procurement customers which has been allocated to noncore procurement customers based on actual monthly usage; plus
(3) Expenses related to off-system sales and Gas Futures transactions; plus
(4) Buyback Purchase Costs, which reflect utility purchases of noncore customers gas deliveries that are 10% above actual usage, during the month.
(5) The recorded cost of transmission access rights acquired for noncore customers. N N

(Continued)

A. PURCHASED GAS ACCOUNT (PGA) (Continued)

4. Accounting Treatment - Noncore PGA (Continued)

b. Revenues shall equal:

(1) All utility charges derived from the sale of gas delivered to noncore customers, including Transmission Access Rights charges, at the posted GPNC-S price during the month; plus T
(2) Noncore Capacity Charge revenues collected under Schedule GPNC-S, plus any surcharge fees collected on this amount; plus
(3) All utility charges derived from off-system sales and gains or losses from Gas Futures transactions; plus
(4) Any Standby Procurement Charges assessed to noncore customers whose confirmed transportation gas deliveries are more than 10 percent below actual usage during the month; less
(5) Any surcharge fees (such as the City of San Diego Franchise Fee Differential) that are collected as a part of the procurement revenues stated above; less
(6) An allowance for F&U on the net of the sum of (1) through (4) above. T

c. The current month balance shall equal the expenses computed in 4.a. above less the revenues computed in 4.b. above.

d. The accumulated month-ending balance shall equal the sum of:

(1) The current month balance; plus the account balance at the beginning of the month; plus any adjustments applicable to the account balance at the beginning of the month; plus
(2) The Monthly Interest Rate multiplied by one-half the sum of the account balance at the beginning of the month plus the account balance at the end of the month.

e. A portion of the resulting balance in this account may be amortized into noncore procurement rates whenever the utility files for a change in these rates.

5. Accounting Treatment – Post August 3, 2000

This subaccount follows the same Accounting Treatment set forth in the above PGA subaccounts (Core, Core Subscription, Noncore), except this Post August 3, 2000 account will be maintained separately. Pursuant to the California Public Utilities Commission (Commission) Order Instituting an Investigation (OII) 00-08-003, dated August 3, 2000, this subaccount will record the costs of procuring gas on behalf of the utility's core and noncore customers. These costs will include the cost of the gas commodity, as well as, the costs of firm purchases of interstate pipeline capacity. The utility will post the costs of gas purchased on and after the date of the OII (August 3, 2000) into this account. The costs recorded in this subaccount, and the costs reflected in prior utility filings (Advice Letter(s) 1184-G, 1188-G, 1195-G, 1197-G, 1201-G, 1206-G), may be subject to future reallocation by the Commission between the core customer class and the noncore customer class based on the outcome of the Commission's decision in OII.00-08-003 regarding the appropriate allocation of costs.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

O. CORE FIXED COST ACCOUNT (CFCA)

1. Purpose

The CFCA is an interest bearing balancing account recorded on SDG&E's financial statements. The purpose of this account is to record the difference between the Utility's authorized gas core
transportation base margin revenue requirement (excluding transmission revenue T
requirements) and recorded base margin revenues (excluding transmission revenues) from T
authorized gas transportation rates, in accordance with Commission D.05-03-023.

The CFCA shall also record the difference between recorded expenses and revenues related to
the recovery of transportation charges billed by SoCalGas to SDG&E, Unaccounted For (UAF) T
gas and Company Use (CU) gas. Expenses exclude transmission company use fuel costs as T
these costs are recovered through an in-kind gas charge that is not subject to balancing N
account treatment, but will be trued-up through an adjustment of the following month's in-kind N
gas charge. N

This account shall be divided into three subaccounts: 1) base margin revenue requirement, 2) SoCalGas transportation costs and 3) other SDG&E costs.

The effective date of this account shall be June 1, 2005.

2. Applicability

The CFCA shall apply to all core customers unless otherwise specified by the Commission.

3. Rates

The CFCA will be recovered through the core transportation rate.

4. Authorized Gas Base Margin Revenue Requirement

The Utility's authorized gas base margin revenue requirement reflects the revenue requirement adopted in Commission D.04-12-015. The authorized revenue requirement shall be revised annually pursuant to the escalation formula adopted in D.05-03-023.

The authorized gas core transportation base margin revenue requirement is recorded to the CFCA on a monthly basis to reflect the following seasonality percentage factors:

14.32	JUL	5.61
12.87	AUG	4.92
11.17	SEP	5.01
8.65	OCT	5.55
6.76	NOV	7.05
6.40	DEC	11.69

The seasonality percentage factors may be updated, if needed, pursuant to the applicable Biennial Cost Allocation Proceeding (BCAP) or other appropriate proceeding.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

O. CORE FIXED COST ACCOUNT (CFCA) (Continued)

5. Accounting Procedure – Base Margin Revenue Requirement

The Utility shall maintain this subaccount by making entries at the end of each month, net of franchise fees and uncollectibles (FF&U), as follows:

a. A debit entry equal to the pro rata allocation of the authorized core transportation base margin revenue requirement (reflecting the factors in Section 4 above). The core portion shall equal the Utility's authorized gas transportation base margin revenue requirement multiplied by its core allocation factor specified under Preliminary Statement Section III.C.5, which describes the BCAP.

b. A credit entry equal to the billed core transportation base margin revenue.

c. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 5.a and 5.b above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

6. Accounting Procedure – SoCalGas Transportation Costs

The Utility shall maintain this subaccount by making entries at the end of each month, net of FF&U, as follows:

a. A debit entry equal to the recorded transportation charges billed by SoCalGas to SDG&E during the month for the transportation and delivery of gas volumes to customers and computed as follows:

(1) The volumetric charges shall be equal to the recorded gas deliveries multiplied by the SoCalGas volumetric rate, less
(2) ITCS charges paid by SDG&E.

b. A credit entry equal to the billed core transportation revenues, equal to the rate component embedded in rates to recover costs for SoCalGas transportation service, less ITCS, multiplied by the applicable gas deliveries.

c. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 6.a and 6.b above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

O. CORE FIXED COST ACCOUNT (CFCA) (Continued)

7. Accounting Procedure – Other SDG&E Costs

The Utility shall maintain this subaccount by making entries at the end of each month, net of FF&U, as follows:

a. A debit entry equal to the costs to recover core UAF and CU (excluding transmission) gas. T

b. A debit entry equal to the recorded costs of intervenor compensation payments that are not collected through gas transportation rates.

c. A credit entry equal to the UAF and CU (excluding transmission) revenues, equal to the rate component embedded in rates to recover specific costs related to UAF and CU (excluding transmission) gas, multiplied by the applicable gas deliveries. T T T

b. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 7.a through 7.c above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

8. Disposition

The Utility shall file in October of each year its annual update of regulatory account balances by advice letter to amortize the projected year-end balance in the CFCA in the core transportation rate effective January 1 of the following year.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

P. NONCORE FIXED COST ACCOUNT (NFCA)

1. Purpose

The NFCA is an interest bearing balancing account recorded on SDG&E's financial statements. The purpose of this account is to record the difference between the Utility's authorized gas
noncore transportation base margin revenue requirement (excluding transmission revenue T
requirements) and recorded base margin revenues (excluding transmission revenues) from T
authorized gas transportation rates, in accordance with Commission D.05-03-023.

The NFCA shall also record the difference between recorded expenses and revenues related to
the recovery of transportation charges billed by SoCalGas to SDG&E, Unaccounted For (UAF) T
gas and Company Use (CU) gas. Expenses exclude transmission company use fuel costs as T
these costs are recovered through an in-kind gas charge that is not subject to balancing N
account treatment, but will be trued-up through an adjustment of the following month's in-kind N
gas charge. N

This account shall be divided into three subaccounts: 1) base margin revenue requirement, 2) SoCalGas transportation costs and 3) other SDG&E costs.

The effective date of this account shall be June 1, 2005.

2. Applicability

The NFCA shall apply to all noncore customers unless otherwise specified by the Commission.

3. Rates

The NFCA will be recovered through the noncore transportation rate.

4. Authorized Gas Base Margin Revenue Requirement

The Utility's authorized gas base margin revenue requirement reflects the revenue requirement adopted in Commission D.04-12-015. The authorized revenue requirement shall be revised annually pursuant to the escalation formula adopted in D.05-03-023.

The authorized gas noncore transportation base margin revenue requirement is recorded to the NFCA on a monthly basis to reflect the following seasonality percentage factors:

7.52	JUL	9.02
7.43	AUG	9.68
7.60	SEP	9.19
7.19	OCT	8.86
6.97	NOV	8.88
8.21	DEC	9.45

The seasonality percentage factors may be updated, if needed, pursuant to the applicable Biennial Cost Allocation Proceeding (BCAP) or other appropriate proceeding.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

P. NONCORE FIXED COST ACCOUNT (NFCA) (Continued)

5. Accounting Procedure – Base Margin Revenue Requirement

The Utility shall maintain this subaccount by making entries at the end of each month, net of franchise fees and uncollectibles (FF&U), as follows:

a. A debit entry equal to the pro rata allocation of the authorized gas noncore transportation base margin revenue requirement (reflecting the factors in Section 4 above). The noncore portion shall equal the Utility's authorized gas transportation base margin revenue requirement multiplied by its noncore allocation factor specified under Preliminary Statement Section III.C.5, which describes the BCAP.

b. A credit entry equal to the billed noncore transportation base margin revenue, including the impact from the electric generation Sempra-wide rate.

c. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 5.a and 5.b above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

6. Accounting Procedure – SoCalGas Transportation Costs

The Utility shall maintain this subaccount by making entries at the end of each month, net of FF&U, as follows:

a. A debit entry equal to the recorded transportation charges billed by SoCalGas to SDG&E during the month for the transportation and delivery of gas volumes to customers and computed as follows:

(1) The volumetric charges shall be equal to the recorded gas deliveries multiplied by the SoCalGas volumetric rate, less
(2) ITCS charges paid by SDG&E.

b. A credit entry equal to the billed noncore transportation revenues, equal to the rate component embedded in rates to recover costs for SoCalGas transportation service, less ITCS, multiplied by the applicable gas deliveries.

c. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 6.a and 6.b above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

(Continued)

PRELIMINARY STATEMENT

IV. BALANCING ACCOUNTS

P. NONCORE FIXED COST ACCOUNT (NFCA) (Continued)

7. Accounting Procedure – Other SDG&E Costs

The Utility shall maintain this subaccount by making entries at the end of each month, net of FF&U, as follows:

a. A debit entry equal to the costs to recover noncore UAF and CU (excluding transmission) gas. T

b. A debit entry equal to the recorded costs of intervenor compensation payments that are not collected through gas transportation rates.

c. A credit entry equal to the UAF and CU (excluding transmission) revenues, equal to the rate component embedded in rates to recover specific costs related to UAF and CU (excluding transmission) gas, multiplied by the applicable gas deliveries. T T T

d. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after entries 7.a through 7.c above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

8. Disposition

The Utility shall file in October of each year its annual update of regulatory account balances by advice letter to amortize the projected year-end balance in the NFCA in the noncore transportation rate effective January 1 of the following year.

(Continued)

PRELIMINARY STATEMENT

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IV. BALANCING ACCOUNTS N

T. INTEGRATED TRANSMISSION BALANCING ACCOUNT (ITBA) N

1. Purpose

The ITBA is an interest-bearing balancing account that is recorded on the utilities' financial statements pursuant to D.06-04-033 and D.XX-XX-XXX. The ITBA consists of two subaccounts: System Integration (SI) Subaccount and the Firm Access Rights and Off-System Delivery (FAR OFF) Subaccount. The purpose of the SI Subaccount is to record the difference between the authorized transmission system revenue requirements and the corresponding transmission revenues. The FAR OFF Subaccount will record a credit to ratepayers for firm and interruptible access charges, As detailed below, interruptible access shall be balanced 75% for the first $20 million annually in such revenues, and then balanced 100% thereafter. Although SDG&E will not have an Off-System Delivery tariff, the costs and revenues related to this service that are reflected in SoCalGas' ITBA shall be allocated between both SDG&E and SoCalGas in connection with the update to the ITBA rate.

2. Applicability

The ITBA shall apply to all customers.

3. Rates

The balance in the ITBA will be included in gas rates upon Commission approval.

4. Accounting Procedure

The **SI Subaccount** shall record entries at the end of the month as follows:

a. A debit entry equal to one-twelfth of the authorized transmission revenue requirement including the authorized revenue requirements of costs associated with off-system facilities that are rolled-in to ratebase;

b. A credit entry equal to the actual transmission revenues;

c. A credit/debit entry equal to the amortization of the previous year balance;

d. An entry equal to interest calculated on the average of the balance at the beginning of the month and the balance after entries 4.a through 4.c above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication. N

(Continued)

PRELIMINARY STATEMENT

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IV. BALANCING ACCOUNTS N

T. INTEGRATED TRANSMISSION BALANCING ACCOUNT (ITBA) (Continued) N

4. Accounting Procedure (Continued)

The **FAR OFF Subaccount** shall record entries at the end of the month as follows:

a. A debit entry equal to one-twelfth of the authorized Firm Access Charge (FAC) and Interruptible Access Charge (IAC)**;**

b. A credit entry equal to the actual firm access reservation charges (i.e. Firm Access Charge) ;

c. A credit entry equal to 75% of interruptible access revenues for the first $20 million from the combined sale of SoCalGas and SDG&E interruptible access and SoCalGas interruptible off-system delivery services provided in the current year;

d. A credit entry equal to 100% of the interruptible access revenues in excess of $20 million from the combined sale of SoCalGas and SDG&E interruptible access and SoCalGas interruptible off-system delivery services provided in the current year;

e. A credit/debit entry equal to the amortization of the previous year balance;

f. An entry equal to interest calculated on the average of the balance at the beginning of the month and the balance after entries 4.a through 4.e above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

5. Disposition

The balance in the ITBA shall be combined with the balance in SoCalGas' ITBA and re-allocated between the utilities based on cold year throughput. SDG&E's allocation of the combined ITBA balance shall then be amortized in the following year's transportation rates as proposed in SDG&E's October regulatory account balance update filing. N