PRELIMINARY STATEMENT Sheet 1
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

A. GENERAL

Balancing accounts are those regulatory accounts where authorized expenses are compared with revenues from rates designed to recover those expenses. The resulting under or overcollection, plus interest calculated in the manner described in Preliminary Statement, Part I, is recorded on the Utility's financial statements as an asset or liability, which is owed from or due to the ratepayers. Balances in balancing accounts are to be amortized in rates.

B. LISTING OF BALANCING ACCOUNTS

Purchased Gas Account (PGA)
Core Fixed Cost Account (CFCA)
Noncore Fixed Cost Account (NFCA)
Enhanced Oil Recovery Account (EORA)
Noncore Storage Balancing Account (NSBA)
California Alternate Rates for Energy Account (CAREA)
Brokerage Fee Account (BFA)
Hazardous Substance Cost Recovery Account (HSCRA)
Natural Gas Vehicle Account (NGVA)
El Paso Turned-Back Capacity Balancing Account (EPTCBA)
Gas Cost Rewards and Penalties Account (GCRPA)
Pension Balancing Account (PBA)
Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA)
Conservation Expense Account (CEA)
Research Development and Demonstration Gas Surcharge Account (RDDGSA)
Demand Side Management Balancing Account (DSMBA)
Direct Assistance Program Balancing Account (DAPBA)
California Solar Initiative Balancing Account (CSIBA)
Integrated Transmission Balancing Account (ITBA) N
Off-System Revenues Balancing Account (OSRBA) N

(Continued)

PRELIMINARY STATEMENT
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING
(Continued)

C. DESCRIPTION OF ACCOUNTS

PURCHASED GAS ACCOUNT (PGA)

The PGA is a balancing account. The purpose of this account is to balance the recorded cost of gas bought for the Utility portfolio with revenue from the sale of that gas.

a. The PGA consists of seven subaccounts. They are:

1. The Core Subaccount which tracks the cost of gas procured for core customers and revenues from the sale of that gas.
2. The Core-Subscription Subaccount which tracks the cost of gas procured for core-subscription customers and revenues from the sale of that gas.
3. The Noncore Standby Service Subaccount which tracks the cost of gas purchases and the revenues from the sale of gas procured to provide standby procurement service for noncore customers.
4. The Excess Core Supply Subaccount which tracks the cost of gas purchases and the revenues from the sale of excess core supplies.
5. The Firm Access Rights Subaccount which tracks the costs to core procurement customers for firm access rights, net of any costs and revenues associated with the purchase or sale of firm and interruptible access rights in the secondary and interruptible markets and the corresponding revenues to recover these costs. N | | N
6. The Take-or-Pay Subaccount which tracks revenue from take-or-pay charges that core-subscription customers incur. T
7. The Core Brokerage Fee Subaccount which tracks revenues from the core brokerage fee and the authorized core brokerage fee. T

b. The Utility shall maintain the PGA by making entries at the end of each month as follows:

1. A debit entry equal to the recorded gas cost in the Utility Portfolio Account during the month, which includes all gas and transmission access rights purchased for procurement customers. N
2. Credit entries equal to the procurement revenue, which includes recovery of transmission access rights, from the sale of gas delivered during the month and amortization of the forecasted revision date PGA balance, excluding the allowance for F&U. | N
3. A credit entry equal to the brokerage fee charged to core customers less the allowance for F & U. L |
4. A debit entry equal to 1/12 of the annual core brokerage fee revenue requirement. |
5. A credit 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 first payment received will be reduced by the estimated net present value of refunds due to core subscription and core aggregation transportation (CAT) customers. | | | L

(Continued)

PRELIMINARY STATEMENT Sheet 3
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING
(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

PURCHASED GAS ACCOUNT (PGA) (Continued)

b. (Continued)

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6. A credit entry equal to the FERC settlement proceeds associated with the 2000-2001 energy crisis. The settlement proceeds received shall be reduced by the amount allocable to core subscription and CAT customers.
7. An entry equal to the interest on the average of the balance in the account during the month, excluding the core-subscription subaccount, calculated in the manner described in Preliminary Statement, Part I, J.

CORE FIXED COST ACCOUNT (CFCA)

The CFCA is an interest bearing balancing account recorded on SoCalGas' financial statements. The purpose of this account is to balance the difference between authorized margin (excluding transmission revenue requirements), transition, and other non-gas fixed costs allocated to the core market with revenues intended to recover these costs. Non-gas fixed costs exclude transmission company use fuel costs as these costs are recovered through an in-kind gas charge which is not subject to balancing account treatment, but will be trued-up through an adjustment of the following month's in-kind gas charge. N | | | N

On a monthly basis, SoCalGas maintains this account as follows:

SoCalGas debits this account with the core portion of the following costs: gas margin costs, transition costs, and other non-gas operating costs.

SoCalGas credits this account with the core portion of the following revenues: transportation revenues from core deliveries; revenues from the sale of core storage capacity rights; base revenues that would have been collected from customers absent the core pricing flexibility program; and other revenues that the Commission has directed SoCalGas to allocate to the core market. Pursuant to D.03-10-017, revenues also include core's allocation of the capital component of FIG (fiber optic cable in gas pipelines) revenues associated with the use of the gas distribution system until superseded by ratemaking adopted in SoCalGas' 2004 PBR/Cost of Service Proceeding (A.02-12-027). T

In addition, SoCalGas adjusts this account to amortize previously accumulated overcollected or undercollected balances, after adjustment for the portion allocable to the NGV customer class, to reflect payment to, or recovery from, ratepayers. Pursuant to Resolution G-3380, on an annual basis, SoCalGas shall transfer a portion of the CFCA over or under collection balance that is allocable to the NGV customer class to the Natural Gas Vehicle Account (NGVA). SoCalGas also adjusts this account to reflect volumetric differences associated with the core amortization recorded in other regulatory accounts.

(Continued)

PRELIMINARY STATEMENT Sheet 4

PART V

DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

NONCORE FIXED COST ACCOUNT (NFCA)

The NFCA is an interest-bearing balancing account. The purpose of this account is to balance the difference between authorized margin (excluding transmission revenue requirements), transition, and other non-gas fixed costs associated with the noncore market with noncore revenues intended to recover these costs. Non-gas fixed costs exclude transmission company use fuel costs as these costs are recovered through an in-kind gas charge which is not subject to balancing account treatment, but will be trued-up through an adjustment of the following month's in-kind gas charge. Noncore revenues exclude Enhanced Oil Recovery (EOR) and unbundled storage revenues and revenues from (1) non-tariff contracts for service to DGN, (2) future non-tariff contracts with Sempra Energy affiliates not subject to competitive bidding, and (3) Competitive Load Growth Opportunities for noncore Rule No. 38 and Red Team incentive revenues. Pursuant to D.03-10-017, revenues also include noncore's allocation of the capital component of FIG (fiber optic cable in gas pipeline) revenues associated with the use of the gas distribution system until superseded by ratemaking adopted in SoCalGas' 2004 PBR/Cost of Service Proceeding (A.02-12-027). Pursuant to D.02-12-017, the Commission authorized 100% balancing account protection effective January 1, 2003 until the date the new BCAP rates go into effect. N | | | N

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On a monthly basis, SoCalGas maintains this account as follows:

SoCalGas debits this account with 100% of the seasonally forecasted noncore and wholesale transportation revenues, including transition and certain non-gas costs allocated to the noncore market and excluding the transactions stated above less F&U. N N

SoCalGas credits this account with 100% of the actual noncore and wholesale revenues excluding the transactions stated above less F&U.

In addition, SoCalGas adjusts this account to amortize previously accumulated overcollected or undercollected balances to reflect payment to, or recovery from, ratepayers.

ENHANCED OIL RECOVERY ACCOUNT (EORA)

This EORA is a balancing account. The purpose of this account is to balance recorded EOR revenue with forecasted EOR revenues. The Utility shall maintain the EORA by making entries at the end of each month as follows:

a. A debit entry equal to one-twelfth of the forecasted EOR revenue amount used to offset the revenue requirement in the most recent annual cost-allocation proceeding;
b. A debit entry equal to the amortization of the forecasted revision date EORA balance;

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(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

ENHANCED OIL RECOVERY ACCOUNT (EORA) (Continued)

c. A credit entry equal to 3.0 cents per therm plus 75 percent of EOR non-gas revenue under contracts signed on or before December 3, 1986, and an amount equal to the short-run marginal cost plus 95 percent of EOR non-gas revenue under contracts signed subsequent to December 3, 1986. EOR non-gas revenue shall equal revenue from EOR customers, including any firm or interruptible access revenues, and excluding the following: L | | L,N N
   1. A floor rate of 3.0¢ per therm for contracts signed on or before December 3, l986, and a floor rate equal to the short-run marginal cost for contracts signed subsequent to December 3, 1986,
   2. Gas procurement costs, and
   3. Interutility transportation costs; and
   4. LUAF, CU and CCSI.

d. An entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

NONCORE STORAGE BALANCING ACCOUNT (NSBA)

The NSBA is a balancing account. The purpose of this account is to (1) balance the authorized at-risk non-gas costs for unbundled storage service as authorized in Decision No.00-04-060 and the reservation and in-kind energy charge revenues collected from customers who contract for these unbundled storage services, and (2) record the unallocated fully scaled unbundled noncore storage revenue requirement.

The Utility shall maintain the NSBA by making entries at the end of the month as follows:

a. A credit entry equal to 50% of all reservation and variable O&M charge revenues less (a) the revenues collected from the reservation charges resulting from the Utility's sale of core storage capacity rights under Schedule No. G-AUC, (b) the allowance for F&U on net revenue, as applicable, and (c) the reservation charge revenues collected for subscribed unbundled storage service from expansion storage facilities;
b. A debit entry equal to 50% of one-twelfth of the authorized at-risk non-gas costs allocated to unbundled storage service (i.e., $21 million annually pursuant to D.00-04-060), less the allowance for F&U on net revenue, as applicable;
c. A debit entry equal to 50% of Company use fuel and well incidents allocated to the unbundled storage programs,
d. A debit entry equal to the difference between 100% of one-twelfth of the authorized fully scaled unbundled noncore storage revenue requirement and one-twelfth of the $21 million at-risk unbundled storage level pursuant to D.00-04-060, less the allowance for F&U on net revenue, as applicable;

(Continued)

PRELIMINARY STATEMENT
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING
Sheet 25

(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

INTEGRATED TRANSMISSION BALANCING ACCOUNT (ITBA) N

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 the credit to ratepayers for firm and interruptible access charges, interruptible off-system delivery charges and firm or reliable displacement off-system delivery charges, if the costs are rolled in to rates. Interruptible access and off-system delivery charges shall be balanced 75% for the first $20 million annually in such revenues, and then balanced 100% thereafter.

The Utility shall record entries at the end of the month as follows:

SI Subaccount

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. An entry equal to the actual revenues authorized by the Commission to amortize the balance in the SI Subaccount;

d. An entry equal to interest on the average of the balance in the SI Subaccount during the month, calculated in the manner described in Preliminary Statement, Part I, J.

FAR OFF Subaccount

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) and firm off-system transmission revenues including Use-or-Pay charges; N

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PRELIMINARY STATEMENT
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING
(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued) N

INTEGRATED TRANSMISSION BALANCING ACCOUNT (ITBA) (Continued)

c. A credit entry equal to 75% of interruptible access and off-system delivery 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 and off-system delivery 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. On an annual basis, a credit entry to reflect the on-system customer's allocation of any overcollection in the Off-System Revenues Balancing Account (OSRBA);

f. An entry equal to the actual revenues authorized by the Commission to amortize the balance in the FAR OFF Subaccount; and

g. An entry equal to interest on the average of the balance in the FAR OFF Subaccount during the month, calculated in the manner described in Preliminary Statement, Part I, J.

The balance in the ITBA shall be combined with the balance in SDG&E' ITBA and re-allocated between the utilities based on cold year throughput. SoCalGas' allocation of the combined ITBA balance shall then be amortized in the following year's transportation rates as proposed in SoCalGas' October 15 regulatory account balance update filing. The 25% shareholder incentive of interruptible access and off-system delivery charges shall be an exclusion in determining sharable earnings under SoCalGas' PBR sharing mechanism. N

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PRELIMINARY STATEMENT
PART V
DESCRIPTION OF REGULATORY ACCOUNTS - BALANCING
(Continued)

Sheet 27

C. DESCRIPTION OF ACCOUNTS (Continued) N

OFF-SYSTEM REVENUES BALANCING ACCOUNT (OSRBA)

The OSRBA is an interest-bearing balancing account that is recorded on the utilities' financial statements pursuant to D.XX-XX-XXX. The purpose of this account is to record the difference between the transmission revenue requirement of new and existing facilities used in providing off-system delivery services and the corresponding transmission revenues recovered through an incrementally priced rate charged to off-system delivery customers.

The OSRBA shall record entries at the end of the month as follows:

a. A debit entry equal to the incremental capital-related expenses incurred by SoCalGas associated with providing off-system delivery services such as depreciation, return on investment and related taxes;

b. A debit entry equal to one-twelfth of the authorized transmission revenue requirement for providing off-system delivery services;

c. A credit entry equal to the actual firm off-system transmission revenues including Use-or-Pay charges;

d. An entry equal to the actual revenues authorized by the Commission to amortize the balance in the OSRBA;

e. An entry equal to interest on the average of the balance in the account during the month, calculated in the manner described in Preliminary Statement, Part I, J.

The disposition of any overcollection in the OSRBA shall be shared equally with on-system and off-system customers. A portion of the year-end balance in the OSRBA shall be transferred to the ITBA. The overcollection shall be split between on-system and off-system customers based on adopted throughput. The remaining balance shall be refunded to off-system customers by adjusting the following year's off-system delivery rates as proposed in SoCalGas' October 15 regulatory account balance update filing. N

PRELIMINARY STATEMENT Sheet 1

PART VI

DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM

A. GENERAL

Memorandum accounts are special accounts authorized by the Commission for the purpose of tracking certain costs and revenues. Please refer to each individual memorandum account description for the specific accounting treatment applicable to each account.

B. LISTING OF MEMORANDUM ACCOUNTS

PCB Expense Account (PCBEA)
Research Development and Demonstration Expense Account (RDDEA)
Curtailment Violation Penalty Account (CVPA)
Economic Practicality Shortfall Memorandum Account (EPSMA)
Catastrophic Event Memorandum Account (CEMA)
Vernon Avoided Distribution Cost Memorandum Account (VADCMA)
Interstate Capacity Step Down Account (ICSDA)
Vernon Rate Savings Memorandum Account (VRSMA)
Vernon Negotiated Core Contract Memorandum Account (VNCCMA)
Earthquake Valve Installation Service Memorandum Account (EVISMA)
Research Royalty Memorandum Account (RRMA)
NGV Research Development & Demonstration Memorandum Account (RDDNGV)
Intervenor Award Memorandum Account (IAMA)
Z Factor Account (ZFA)
Tax Interest Account (TIA)
Energy Efficiency/DSM Memorandum Account (EEDSMMA)
Wheeler Ridge Firm Access Charge Memorandum Account (WRFACMA)
Gas Industry Restructuring Memorandum Account (GIRMA)
Self-Generation Program Memorandum Account (SGPMA)
Baseline Memorandum Account (BMA)
Blythe Operational Flow Requirement Memorandum Account (BOFRMA)
Annual Earnings Assessment Proceeding Memorandum Account (AEAPMA)
Cost of Service Revenue Requirement Memorandum Account (COSRRMA)
FERC Settlement Proceeds Memorandum Account (FSPMA)
Interim Call Center Memorandum Account (ICCMA)
Late Payment Charge Memorandum Account (LPCMA)
San Diego Gas & Electric Storage Memorandum Account (SDGESMA)
Firm Access Rights Memorandum Account (FARMA) N

(Continued)

PRELIMINARY STATEMENT
PART VI
DESCRIPTION OF REGULATORY ACCOUNTS - MEMORANDUM
(Continued)

C. DESCRIPTION OF ACCOUNTS (Continued)

FIRM ACCESS RIGHTS MEMORANDUM ACCOUNT (FARMA) N

The FARMA is an interest bearing memorandum account that is recorded on SoCalGas' financial statements. The FARMA shall record costs incurred by SoCalGas to implement a firm, tradable access rights structure to provide customers with an opportunity to obtain firm access into the utility system at a specific receipt point throughout the year.

The Utility shall maintain the FARMA by making entries to the account at the end of each month, as follows:

a. A debit entry to record incremental O&M (Operating and Maintenance) and capital-related costs (i.e., depreciation, return on investment and related taxes) associated with expenditures incurred that are directly related to implementing new or enhanced computer systems to allow customers or other persons to trade firm access rights on the Utility system.

b. An entry equal to the interest on the average balance in the account during the month, calculated in the manner described in the Preliminary Statement, Part I,J.

The disposition of the balance in the FARMA will be reviewed in SoCalGas/SDG&E's next Biennial Cost Allocation Proceeding (BCAP) or other appropriate proceeding. N