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CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA)

This memorandum account has been established pursuant to CPUC Resolution No. E-3238, dated July 24, 1991. The purpose of CEMA is to allow for the recovery of Utility's costs of restoring Utility services to its customers; repairing, replacing or restoring damaged Utility facilities; and complying with governmental agency orders in connection with events which are officially declared disasters by competent state or federal authorities. The costs recorded in CEMA will be recovered in rates only after request by the Utility and subsequent approval by the Commission as to the reasonableness of such costs. L

Should a disaster occur, the Utility shall, if possible, inform the Executive Director of the CPUC by letter within thirty (30) days after the catastrophic event if the Utility has started booking costs in CEMA. Such letter shall specify the declared disaster, date, time, location, service area affected, impact on the Utility's facilities, and an estimate of the extraordinary costs expected to be incurred, with expense and capital items shown separately.

Upon declaration of a disaster or state of emergency, Utility shall maintain CEMA with entries made to this account at the end of each month as follows:

a. A debit entry equal to the amounts recorded in the Utility's Operations and Maintenance and Administrative and General Expense Accounts that were incurred as a result of the disaster and related events.

b. A debit/credit entry equal to:

   1. depreciation expense on the average of the beginning and end-of-month balance of plant additions installed to restore service to customers, or to replace, repair, or restore any plant or facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth the annual depreciation rates approved by the CPUC for these plant accounts; plus

   2. the return on investment on the average of the beginning and the end-of-month balance of plant additions installed to restore service to customers or replace, repair, or restore any plant or facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth of Utility's annual rate of return; plus

   3. the return on the allowance for working capital using the calculations most recently adopted by the CPUC and the rate of return applicable in b.2. above; plus L

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4. the return on net cost of removal of facilities required as a result of the disaster and related events, using the rate of return applicable in b.2. above; less L

5. the return on the average of beginning and end-of-month accumulated depreciation, and an average accumulated net deferred taxes on income resulting from the normalization of federal tax depreciation, using the rate of return applicable in b.2. above.

c. A debit entry equal to federal and state taxes based on in come associated with item b. above, calculated at marginal tax rates currently in effect. This will include all applicable statutory adjustments.

   For federal and state taxes, this will conform to normalization requirements as applicable. Interest cost will be at the Utility's most recently adopted percentage of net investment.

d. A credit entry to transfer all or a portion of the balance in the CEMA to other adjustment clauses for future rate recovery, as may be approved by the CPUC.

e. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after the entries from a. through c. above, at a rate equal to one-twelfth the interest rate on Commercial Paper (prime, 3-month) for the previous month, as reported in the Federal Reserve Statistical Release, G.13, or its successor.

Entries in Items a. and b. above, shall be made net of the appropriate insurance proceeds.

The Utility shall record the balance in the CEMA as a deferred debit on its balance sheet with entries to the appropriate income statement accounts, as necessary. L