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

Southern California Gas Company

2017

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 2017 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, 2017 through April 30, 2018, 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 Rate Revenue						
	2016			2017		
Revenue Component	**Rate Revenue** $000		**Percentage**	**Rate Revenue** $000		**Percentage**
Energy	$883,973	1	22.6%	$1,320,760	2	32.4%
Transportation 3	$2,689,665		68.9%	$2,415,219		59.2%
Storage 4	$21,457		0.5%	$18,646		0.5%
Public Purpose Program	$332,206		8.5%	$343,321		8.4%
Total	$3,905,845		100%	$4,079,300		100%

1 Actual recorded revenue.
2 Represents estimates of the residential, core C&I, and NGV energy revenue and was derived by multiplying the 2016 CGR forecast throughput projection for 2017 by the gas price forecast for 2017.
3 The transportation component includes Authorized Base Margin, amortization of regulatory accounts, other operating costs, System Integration, and Sempra-wide adjustments.
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 forecasts, 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 forecasts 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 sales 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 32.4% of the total gas revenue requirements in 2017. In 2016, gas energy revenue requirements represented about 22.6% of the total authorized gas revenue. The gas energy revenue requirements are expected to increase from 2016 to 2017 due to higher forecasted gas prices.

2) Transportation revenue requirements are estimated to be about 59.2% of the total gas revenue requirements in 2017. For 2016, the transportation revenue requirements were about 68.9% of the total authorized gas revenue requirement. The transportation revenue requirement decrease for 2017 was due primarily to an authorized decrease in the amortizations of the regulatory accounts, especially the Core Fixed Cost Account (CFCA).

3) Costs allocated to the unbundled storage program comprised approximately 0.5% of the total gas revenue requirements in 2016, and this level is forecasted to remain unchanged in 2017.

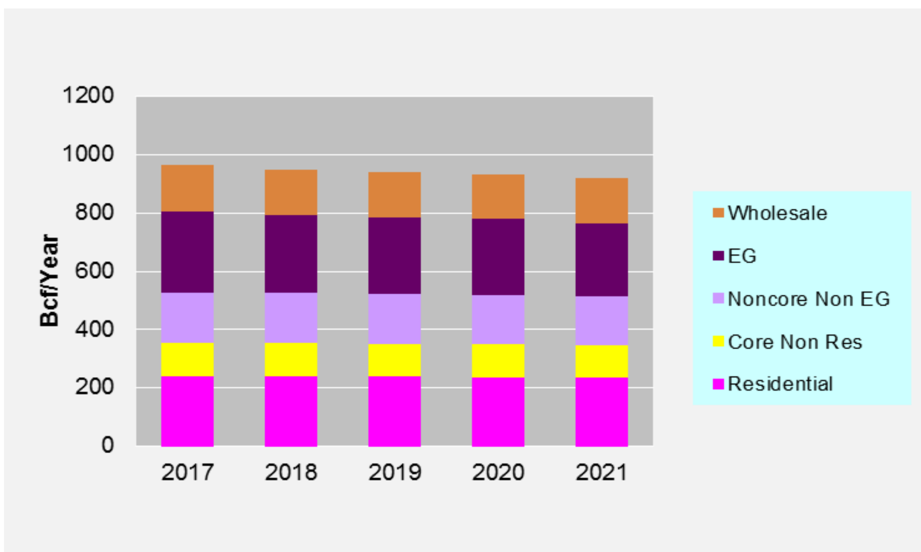
4) Public Purpose Program (PPP) revenue requirements, including California Alternate Rates for Energy (CARE) Discount and Energy Efficiency, will represent approximately 8.4% of the total gas revenue requirements for 2017.

For 2016, these programs comprised about 8.5% of the total authorized gas revenue requirements. While decreasing as a relative percentage, the increase in gross revenue requirement is occurring due to increases in the amortization of regulatory accounts related to PPP.

C. Demand Forecasts

This section outlines major categories of average year gas demand forecast through 2021.

Composition of SoCalGas' Requirements (Bcf/Year)
Average Temperature and Normal Hydro Year (2017-2021)



SoCalGas Demand Forecasts (Bcf/Year)
Average Temperature and Normal Hydro Year (2017-2021)

Bcf	2017	2018	2019	2020	2021
Residential	240	239	238	237	235
Core Non Res	115	114	113	113	111
Noncore Non EG	173	172	171	170	169
EG	276	268	263	260	251
Wholesale	160	155	153	153	153
TOTAL	963	948	938	932	918

The table above shows the projected average year[1] gas demand over the five-year period covering 2017 to 2021. Gas demand in 2017 is expected to total 963 Bcf. By 2021, the load is expected to have declined to 918 Bcf. Based on the 2016 *California Gas Report* (CGR), the average year load is expected to decline steadily from 2017 to 2021. The annual rate of growth from the initial year of 2017 to the year 2021 is anticipated to be -0.94%. Average year gas demand is expected to decline in the future due to the combined effects of modest economic growth, CPUC-mandated energy efficiency goals and renewable electricity goals[2], declines in commercial and industrial demand, 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 2016 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 40.1 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 2016-2026, Revised/Final Forecast dated January 2016.)

2. Rate Outlook from May 1, 2017 to April 30, 2018

(A) Listing of Pending Proceedings

The following table contains a listing of pending proceedings that are likely to affect rates. After the table is a short summary of each of the noted pending proceedings. 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 (2017/2018)
					Total Cost	2017 RRQ	Mid-2017/2018 RRQ		
1	Pipeline Safety & Reliability Project	A.15-09-013	30-Sep-15	2020	$633 million	N/A	N/A	Request for 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.	N/A
2	Pipeline Safety Enhancement Plan (PSEP) 2016 Reasonableness Review	A.16-09-005	2-Sep-16	2018	$180 million	N/A	$68.4 million	PSEP reasonableness review requesting rate recovery for costs of certain pipeline safety projects completed by June 30, 2015 and recorded in their authorized regulatory accounts. Pursuant to D.16-08-003, SoCalGas and SDG&E have been authorized partial (50%) interim rate recovery of PSEP costs, subject to refund, and have previously incorporated costs associated with this application into rates (see Advice Letter 5017-A).	Core Transportation increases by 0.36 cents/therm. Non-core transportation increases 0.07 cents/therm.

Listing of Pending Proceedings (cont.)

	Filing Name	Proceeding Reference (e.g. Application#)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate (2017/2018)
					Total Cost	2017 RRQ	Mid-2017/2018 RRQ		
3	Cost of Capital Petition for Modification (PFM)	D.12-12-034 and D.13-03-015	7-Feb-17	1/1/2018	N/A	N/A	Decreased authorized revenues of $44-52 million	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.	Rate impact not available at this time.
4	Gas Utility GHG OIR	R.14-03-003	Rulemaking proceeding commenced March 2014.	2017	$123.1 million of compliance costs, offset by consignment revenues of $97.3 million, for 2017 costs and revenues only.	$123.1 million of compliance costs, offset by consignment revenues of $97.3 million, for 2017 costs and revenues only.	Not Available	While Cap-and-Trade compliance costs would be included on a forecasted basis in the utilities' transportation rates, implementation has been delayed pending resolution of an Application for Rehearing (AFR) related to the allocation of GHG revenues. As part of the AFR, the disposition of accrued GHG costs and revenues will be also determined.	Transportation Rates for non-covered entities would increase by 3 cent / therm for 2017 revenue requirement only. Consignment allowance revenue would create approximately $15 per year in customer credits for all non-covered entities for 2017 revenues only.

Listing of Pending Proceedings (cont.)

	Filing Name	Proceeding Reference (e.g. Application#)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate (2017/2018)
					Total Cost	2017 RRQ	Mid-2017/2018 RRQ		
5	Advice Letter No. 5057 Request for Recovery of the Transmission Integrity Management Program Balancing Account (TIMPBA) Balance	D. 13-05-010, Advice Letter No. 5057	3-Mar-17	8/1/2017	$21.5 million	$5.5 million incremental revenue (see description)	N/A	Requesting recovery of the TIMPBA under collections. TIMBA was established to record the difference between authorized and actual Operations and Maintenance (O&M) and capital –related costs associated with SoCalGas' TIMP. 2015 TIMPBA under collection of $21.485 million is offset by the 2014 TIMPBA under collection of $19.126 million that is currently in rates. $3.162 million of the 2012-2015 SDG&E TIMPBA under collection is being allocated to SoCalGas. Net effect is an increase of $5.521 million (without FF&U and Sempra wide adjustments) in TIMPBA cost recovery.	Core transportation rates will increase 0.01 cents per therm. Non-core transportation rates will increase 0.006 cents per therm.

Listing of Pending Proceedings (cont.)

	Filing Name	Proceeding Reference (e.g. Application #)	Filing Date	Requested/Expected Implementation date	Requested Dollar Amount			Description	Impacted Rate (2017/2018)
					Total Cost	2017 RRQ	Mid-2017/2018 RRQ		
6	Gas Core Transport Agent (CTA) OIR	R.14-03-002	Rulemaking proceeding commenced March 2014.	August 2017	N/A	N/A	N/A	Establish customer protection provisions for CTAs to follow and refine CTA program processes.	Rate impact unknown at this time.

1) 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. At the direction of the CPUC, an amended application was filed on March 21, 2016. SDG&E is expecting a Phase 1 CPUC decision by Q4 2017 with Phase 2 to commence thereafter and a draft Environmental Impact Report (EIR) expected in August 2018. Once approved, the roughly $633 million project will take about 18-21 months to construct and place in service.

2) Pipeline Safety Enhancement Plan (PSEP) 2016 Reasonableness Review

On September 2, 2016 SoCalGas and SDG&E filed a joint application (A.16-09-005) with the CPUC for its second PSEP reasonableness review requesting rate recovery for costs of certain pipeline safety projects completed by June 30, 2015 and recorded in their authorized regulatory accounts. The total costs submitted for reasonableness review is $195 million ($180 million for SoCalGas and $15 million for SDG&E) and the associated revenue requirement requested for recovery is $71 million ($68.4 million for SoCalGas and $2.6 million for SDG&E). SoCalGas and SDG&E expect a CPUC decision in 2018.

3) Cost of Capital

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. 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. As part of that recent CPUC action to provide an extension of the date to file the next Cost of Capital application, SoCalGas, along with SDG&E, Pacific Gas & Electric Company (PG&E) and Southern California Edison Company (collectively, the "Joint 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.

On February 7, 2017, the Joint IOUs filed a Petition for Modification (PFM) of CPUC decisions D.12-12-034 and D.13-03-015 to seek approval of their Memorandum of Understanding for a further delay in filing the Cost of Capital application. If the CPUC grants the Joint IOUs PFM, the next Cost of Capital applications would be filed on April 22, 2019, for a 2020 Test Year, rather than April 20, 2017. The Joint IOUs would be required to change rates on January 1, 2018 to true up their long term debt costs to reflect actuals at August 2017 and forecasted debt issuance through December 2018, and to slightly lower returns on equity. Authorized capital structures would remain unchanged, and the Cost of Capital Trigger Mechanism would be in effect to adjust 2019 cost of capital, if necessary. It is estimated that granting the PFM would reduce SoCalGas' January 1, 2018 revenue requirement by between $44 million to $52 million.

4) Gas Utility GHG OIR

Beginning January 1, 2015, the Air Resources Board's (ARB) Cap-and-Trade Program expanded to include emissions from natural gas suppliers, and SoCalGas became responsible for procuring carbon allowances or offsets on behalf of its end-use customers, whom are generally those who emit less than 25,000 metric tons of CO2 equivalent per year for the emissions generated from the full combustion of the natural gas SoCalGas delivers (Non-Covered Entities). Covered Entities have a direct obligation to the ARB for their own emissions; therefore, SoCalGas' obligation does not include emissions from Covered

Entities, and Covered Entities will not be responsible for compliance costs related to Non-Covered Entities incurred by SoCalGas.

In March 2014, the CPUC began a rulemaking proceeding, R.14-03-003, addressing natural gas distribution utility cost and revenue issues associated with greenhouse gas (GHG) emissions and Cap-and-Trade compliance. In October 2015, the CPUC issued a decision in that rulemaking determining how the costs related to compliance with the Cap-and-Trade program would be included in utilities' rates. The decision also addressed how revenues generated from the sale of directly allocated allowances would be returned to eligible customers. Although the decision determined that all Cap-and-Trade compliance costs would be included on a forecasted basis in the utilities' transportation rates, implementation has been delayed pending resolution of an Application for Rehearing (AFR) related to the allocation of GHG revenues. As part of the AFR, the disposition of accrued GHG costs and revenues will be also determined. For 2017, SoCalGas has forecasted compliance costs to be $123.1 million and consignment revenues to be $97.3 million. Neither amount includes the unamortized balances for 2015 or 2016.

5) Advice Letter No. 5057 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, 2015, the TIMPBA was $21.5 million under collected. The recorded under collection for the 2015 period was comprised of O&M expenses of approximately $11.3 million, TIMP-related capital expenses of approximately $10.1 million, and interest of $0.08 million. A Commission Resolution approving Advice Letter No. 5057 is expected in 2017 for rates effective August 1, 2017.

6) Core Transport Agent (CTA) OIR

The CPUC issued Rulemaking 14-03-002 on March 13, 2014 to establish standards and procedures necessary for CTAs (entities who buy gas supplies for residential and small commercial natural gas customers) to comply with the newly-adopted consumer protections for natural gas customers set forth in Senate Bill 656. In Phase 1 of this proceeding, the CPUC adopted Decision 14-08-043, which established a uniform registration process for CTAs. Phase 2 of this proceeding was initiated on February 28, 2017, and will address the remaining CTA program issues identified in the rulemaking, including consideration of re-entry fees applied to CTAs to recover the costs of administrating the CTA program by the utilities. A proposed decision is anticipated in August 2017.

(B) **New Proceedings Likely to be Filed Between Now and April 30, 2018**

General Rate Case (GRC)

SoCalGas intends to file its Test Year 2019 GRC by September 1, 2017, which would set SoCalGas' authorized revenue requirement for 2019-2021. Any rate impacts from the 2019 GRC would not take effect until January 1, 2019, at the earliest. For reference, SoCalGas' 2017 authorized revenue requirement is $2.278 billion.

Gas Cost Incentive Mechanism (GCIM) Year 23

SoCalGas will file its GCIM Year 23 application in June 2017. 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). For reference, SoCalGas' GCIM Year 22 application recognized actual cost for all gas purchases subject to the GCIM of $968.1 million, while the benchmark cost was $996.2 million. Therefore, of the $28.2 million in savings for purchases below the benchmark, a shareholder award of $5.0 million was recognized.

Pipeline Safety Enhancement Plan Forecast Application

SoCalGas and SDG&E anticipate filing a forecast application in the first half of 2017 requesting approval to proceed with certain PSEP projects identified as part of Phases 1B and 2A.

Mobilehome Park Application

SoCalGas and SDG&E anticipate filing an application in 2017 for approval of Mobilehome Park Conversion Programs in each utility's service territory, similar to the current Mobilehome Park Pilot Programs authorized by D.14-03-021. The Application will seek approval to convert master-metered/submeter mobilehome parks on a combined "to the meter" and "beyond the meter" basis to direct utility service.

Aliso Canyon Cost and Revenue Memorandum Account Application

Pursuant to D.16-10-004, if the Commission opens an Order Instituting Investigation (OII), or similar proceeding, regarding the Aliso Canyon gas leak[3] and the scope of the proceeding does not include the issue of whether, and to what extent, the amounts tracked by the Aliso Canyon Memorandum Account established pursuant to Decision 16-03-031 should be refunded to the customers of SoCalGas with interest, then SoCalGas shall file an application to address this refund issue no later than three months after a final Commission decision in the investigation proceeding.[4] D.16-10-004 further provided that if the Commission does not open an OII, or other similar proceeding, regarding the Aliso Canyon leak by September 30, 2017, then SoCalGas shall file by January 1, 2018, an application to address the issue of whether, and to what extent, the amounts tracked by the Aliso Canyon Memorandum Account should be refunded to the customers of SoCalGas with interest.

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[3] On October 23, 2015 a gas leak was discovered at one of the gas wells at SoCalGas' Aliso Canyon storage field.

[4] The Aliso Canyon Memorandum Account was established to track SoCalGas' authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate Aliso Canyon. The memorandum account excludes costs related to the Aliso incident itself.

(C) Anticipated Rate Changes During 2017

In addition to potential rate changes due to pending decisions or resolutions 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 2017

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 2017	January 2018	Gas Transportation	Decrease	($287,344)	(1)
Gas Consolidated AL	December 2017	January 2018	Gas Transportation	Decrease	($213,502)	(1) (2)
Gas Public Purpose Program Update AL	October 2017	January 2018	PPP Surcharge	Increase	$11,115	(1)

(1) Shows change from 2016 to 2017. This is an annual routine filing in which the specific financial impact for 01/2018 has not been determined.
(2) Gas Consolidated AL 5075 shows change from 2016 to 2017.

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 2016 was $100 million and is $112 million in 2017.

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, and 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 tend to 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 had 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 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 had proposed to increase the residential customer charge to approximately $10/month while at the same time reducing volumetric rates. However, the TCAP decision rejected SoCalGas' proposed $10/month customer charge and retained the existing $5/month customer charge. 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. SoCalGas believes that the Commission missed an opportunity to align rate design with cost causation and reduce intra-class subsidies.

3. Management Control of Rate Components

In order to keep rates reasonable, SoCalGas works proactively to 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 could be 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 1/1/17 $ millions			
	Core	**Non-Core**	**Total**
Energy Efficiency	$79	$7	$86
Low Income Energy Efficiency	$132	$0	$132
CARE	$73	$39	$112
RD&D	$12	$0	$12

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. In the Gas GHG Rulemaking, R.14-03-003, several parties discussed options for addressing unamortized balances in the GHG balancing accounts. For reasons outside the control of natural gas ratepayers, the balancing accounts at the various utilities have accrued for two plus years without any of those costs being recovered in rates, and catching up on those costs would lead to a substantial rate increase for many customers while distorting the carbon price signal. Parties noted that on option for the Commission to consider is to direct the utilities to net out GHG costs for 2015 and 2016 against the available GHG proceeds from the consignment sale of directly allocated

allowances for 2015 and 2016, and carry forward only the net balance. This option would serve two purposes: (1) it would limit rate impacts to customers; and (2) it would provide a more accurate carbon price signal by not amortizing significant undercollections from prior years at the same time as amortizing revenue requirements for the current year. If this option were considered, it would be a one-time event to address the backlog that resulted from the delay of this regulatory proceeding and to allow all the parties to "catch-up" on amortizing the 2015 and 2016 GHG costs and proceeds. This option would allow for a clean start to the California Cap-and-Trade program for natural gas customers and will provide a more accurate price signal for 2017 and going forward.

2. 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.[5] Additionally, SoCalGas has requested that a Phase I decision authorize the use of SoCalGas' existing New Environmental Regulatory Balancing Account (NERBA) to track and record any incremental costs not already authorized. 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 develop the overall policies and guidelines for a natural gas leak abatement program consistent with SB 1371 is expected by Q3 2017.

3. 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

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

substantially to reducing California's Greenhouse Gas Emissions.[6] SoCalGas supports policies and programs that encourage the installation of CHP.

4. 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.

5. 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.

6. 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.

7. California Alternative Rates for Energy (CARE): CARE customers comprise one quarter of SoCalGas' residential volume. Non-CARE customers must cover the CARE shortfall, which is 4% of transportation costs. Safeguards should be taken so that only qualified customers are participating in the CARE program.

8. 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 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.

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[6] 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.