Accounting Policy and Depreciation

1. Please identify all changes in accounting policy since January 1, 1996 in which SoCal has changed from expensing certain costs to capitalizing them or vice versa. Provide internal documentation of such policy changes. For each change, identify the number of dollars in each year since the change in accounting policy took place.

SoCalGas Response: SoCalGas has made no accounting policy changes in which SoCalGas has changed from expensing certain costs to capitalizing them or vice versa since January 1, 1996.
2. Please identify all changes in accounting policy proposed for the 2004 test year in which SoCal proposes to change from expensing certain costs to capitalizing them or vice versa. Provide internal documentation of such policy changes. For each change, identify the number of dollars in each year since the change in accounting policy took place.

SoCalGas Response: SoCalGas proposed two changes in its accounting policy for the Test Year 2004. They are as follows:

1) Capitalization Policy for General Plant Equipment
   SoCalGas proposes to increase its capitalization threshold for general plant equipment from $500 per unit to $5,000, effective January 1, 2004. The threshold increase would impact computer hardware, capital tools, communication equipment, and office furniture. If adopted, this change would result in an estimated $8.2 million annual increase in operating and maintenance (O&M) expense with a corresponding decrease in capital expenditures. Please see attached document for further details.

   The attached memo from Terry Fleskes, dated August 21, 2002, informing the proposed accounting policy changes for Sempra Energy Utilities which consists of SoCalGas and San Diego Gas and Electric. The only change in the memo affecting SoCalGas is the increase of capitalization threshold for general plant assets to $5,000 per unit.

2) Capitalization Policy for Software Costs
   SoCalGas proposes to adopt Statement of Position (SOP) 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, effective January 1, 2004.

   Under SOP 98-1, SoCalGas would expense the following costs for software projects initiating on or after January 1, 2004:
   
   1. Preliminary project stage costs;
   2. Training costs;
   3. Data conversion costs; and
   4. Administrative & General and other non-payroll related overheads.

   As stated in Terry Fleskes’ testimony, this proposed change, if approved by the Commission, would increase annual O&M expenses for Test Year 2004 by approximately $5.8 million with a corresponding decrease in capital expenditures.
3. Regarding the sale of land and buildings subsequent to January 1, 1996:
   a. Identify each item sold. Exclude items where the sale generated a credit against CTC.
   b. For each item sold, identify the gross proceeds, the costs of sale, and the net book value of each item sold. Divide net book value into land and buildings.
   c. Identify whether gains and losses on sale were included in the PBR sharing formula for each item.
   d. Identify the ratemaking treatment of each item sold requested in this case.

SoCalGas Response:
   a) See attached schedule in column B. There were no items where the sale generated a credit against CTC.
   b) See attached schedule in columns C-F.
   c) See attached schedule in column G.
   d) See attached schedule in column H.
4. Please provide a comparison of the depreciation life curves used for each account in the previous GRC and the current GRC.

**SoCalGas Response:** Please see the attached Excel spreadsheet for currently authorized survivor curves under the previous GRC and the proposed survivor curves for Test Year 2004.
5. Please confirm that the depreciation rates requested in this case do not take effect until 2004.

SoCalGas Response: The depreciation rates for Test Year 2004 reflected the proposed salvage rates and survivor curves which would not take effect until January 1, 2004 upon approval by the Commission. Depreciation rates for 2002 and 2003 use salvage rates and survivor curves currently authorized.
6. Please identify and explain the impact of any differences in the methods used to account for gross salvage and cost of removal between SoCal Gas and SDG&E that have been in place during the 15-year period used to calculate net salvage. If differences have been reconciled subsequent to the merger, identify when and how the different methods were reconciled.

**SoCalGas Response:** There was no difference in methodology used to calculate gross salvage and cost of removal between SoCalGas and SDG&E. As a result, no reconciliation was necessary.
7. Regarding amortization of transmission rights of way (Account 365.29):
   a. Please explain why rights of way are amortized at all.
   b. Please provide retirements by year by account for gas transmission rights of way from 1990-2001 recorded.
   c. Are any of the transmission rights listed by vintage on REL-152 and REL-153 that are older than 40 years old still in service? If so, which ones.
   d. Please explain why gas transmission rights of way are amortized over a shorter period than gas transmission mains.

SoCalGas Response:

a) The FERC requires these costs to be capitalized rather than being expensed in the year of acquisition. Refer to FERC Code of Federal Regulations 18, Part 101, Gas Plant Instruction 7. Amortization is the only mechanism for the recovery of capitalized costs associated with acquiring land rights. Also, amortization is the means by which these recorded costs are removed from rate base.

b) Retirements:

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<th>Year</th>
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<tr>
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<td>0</td>
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<td>1992</td>
<td>0</td>
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<tr>
<td>1993</td>
<td>14,954</td>
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<td>3</td>
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<td>1997</td>
<td>2,328</td>
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<td>0</td>
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<tr>
<td>2000</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>48</td>
</tr>
</tbody>
</table>

c) All of the transmission rights listed by vintage on REL-152 and REL-153 that are older than 40 years old are still in service.

d) Gas Transmission Rights-of-Way have been amortized using a 40-year life since 1977 as approved by the Commission. This life was selected based primarily on the industry average.
8. Regarding amortization of underground storage rights (Account 350.301, REL-135):

   a. Please provide the workpapers supporting the then-requested amortization of underground storage rights from SoCal’s 1994 TY GRC and SoCal’s PBR Cost of Service (if different).

   b. Please confirm that underground storage rights were amortized at a rate of $1,651,202 in 2001.

   c. Please confirm that underground storage rights would be fully amortized at an amortization rate of $1,651,202 in 2002 and 2003.

SoCalGas Response:

   a) Please refer to the attached file. There were no changes in amortization service life for underground storage rights in SoCal’s PBR Cost of Service as compared to SoCal’s 1994 Test Year GRC.

   b) The workpaper originally filed contained an error and the corrected spreadsheet will be introduced as part of our errata filing. The error was caused by the exclusion of Montebello assets in the 2001 amortization calculation. Montebello assets were transferred to non-utility on August 28, 2001 in accordance with Decision No. 01-06-081 issued by the CPUC on June 28, 2001. The total for 2001 amortization should have reflected $336,353.

   c) Based on the revised schedule supporting the amortization calculation, storage rights will not be fully amortized in 2002 or 2003.
9. Regarding software depreciation:
   a. Please explain how software is placed into the three-year, six-year, ten-year, and twenty-year amortization categories.
   b. Identify each piece of software costing over $1 million in each category as of the end of 2001.
   c. Identify the specific software underlying the $4,052 million gross additions and $502,000 of retirements of three-year amortized software in June, 2003. (REL-57)
   d. Identify the specific software underlying the $5.715 million gross additions and $695,000 of retirements of three-year amortized software in June, 2004. (REL-58)
   e. Please provide five years of history of additions and retirements of software by vintage in the three-year and six-year categories.

SoCalGas Response: Below are the corresponding responses for each of the above inquiries:

a) The determination is made with the joint understanding between Information Technology and Accounting based on the expected life of the technologies used, the volatility of the business area or processes and the life of either the system being enhanced or significant interfacing systems.

b) Please see attached schedule below.

c) The specific software underlying the $4.052 million gross additions of 3-year amortized software in June 2003 is the Microsoft Licensing Project. The $503,000 of retirements is a forecast derived from using a retirement percentage times the beginning plant balance. This is consistent with the overall retirement assumption in which: 1) estimated retirements for 2002-2004 were calculated using a ratio of a 3-year average of historical retirements to a 3-year average of historical plant balances, 2) the ratio is then applied to the forecasted plant balance to estimate future retirements, and 3) the annual retirement is then allocated monthly based on monthly forecasted plant additions.

d) The specific software underlying the $5.715 million gross additions of 3-year amortized software in June 2004 is the Microsoft Licensing Project. The $695,000 of retirements is a forecast derived from using a retirement percentage times the beginning plant balance. This is consistent with the overall retirement assumption in which: 1) estimated retirements for 2002-2004 were calculated using a ratio of a 3-year average of historical retirements to a 3-year average of historical plant balances, 2) the ratio is then applied to the forecasted plant balance to estimate future retirements, and 3) the annual retirement is then allocated monthly based on monthly forecasted plant additions.

e) Please see attached schedule below.
10. Regarding Customer Meter Installation (Account 382) net salvage, please explain why the net salvage generally was less negative starting in 1995 than before 1995. (REL-111) If there were any accounting changes during that period, please identify them.

**SoCalGas Response:** In 1995, there was a significant decrease in overall capital expenditure by SoCalGas compared to prior years. Because there were fewer capital projects being initiated, charges to both capital additions and removal cost decreased as well. SoCalGas has made no change to its accounting policy that would cause a reduction in removal costs.
11. Please explain generally the methods used by the Company to develop cost of removal when it retires a piece of gas main or a gas service line and replaces it with a new line. If any ‘rules of thumb” or percentage formulas are used, please identify them and explain the basis for them.

**SoCalGas Response:** Removal costs for routine capital replacement of gas main and service line work are calculated using percentages of total costs of the projects. Surveying recent actual replacement projects across the Company’s service area develops percentages. Removal percentages are reviewed and updated annually.

Removal costs for non-routine transmission gas main and distribution gas main and service line replacement work are based on a percentage of total costs. The percentage varies by project based on the factors listed below:

1. Size, quantity, type of pipe to be removed and/or abandoned,
2. Geographical location and related environmental factors of pipe to be removed and/or abandoned, and
3. Requirements specified by any laws and ordinances
12. Please explain generally how the Company accounts for funds received from third parties for damage to its gas or electric system (i.e., split of costs into cost of removal, O&M, and Contribution in Aid of Construction – CIAC).

**SoCalGas Response:** When funds are received from third party damage to SoCalGas’ gas lines, they are credited directly to FERC 143 - Other Accounts Receivable (general ledger account 1104041, Other Accounts Receivable Claims). When costs are incurred, they are offset against FERC 143. Generally, costs are not split into cost of removal, O&M, and CIAC since they are fully recovered from third-parties.
13. Please explain generally how the Company accounts for funds received from third parties to reimburse costs of relocation to its gas or electric system (i.e., split of costs into cost of removal, O&M, and Contribution in Aid of Construction – CIAC).

SoCalGas Response:

Funds received from third party reimbursements for costs to relocate SoCalGas’ gas assets are credited to FERC 174 – Miscellaneous Current and Accrued Assets. When costs are incurred, they are debited and offset to FERC 174. The following balance sheet accounts, all representing FERC 174, are used to differentiate the portion allocated to capital and non-capital related activities:

- 11063XX CIAC capital accounts (e.g., 1106376 will denote distribution main CIAC and 1106380 will denote distribution service)
- 1106400 O&M/Removal costs
- 1106052 Third Party Reimbursement costs – temporary clearing account

The breakdown between removal, O&M, and CIAC is based on the project-scope assessment when the job was planned. Lastly, since SoCalGas does not have an electric system, it does not receive any funds from third parties to reimburse costs of electric system relocation.
14. Please provide “percent surviving versus age band” graphs for SoCal similar to those provided in the SDG&E workpapers on pages REL-231 and following.

SoCalGas Response: Attached are the graphs of percent surviving versus age of survivors for SoCalGas plant accounts.
15. In the past 20 years, has SoCal ever engaged in a program to replace gas regulators of any particular types on an accelerated basis for safety or other reasons? If so, please identify the types of regulators replaced and the time frame(s) when those regulators were originally installed.

SoCalGas Response: Yes, So Cal Gas has engaged in several programs to replace gas regulators. Those regulators are:

- Fisher 399 - Installed starting in 1987.
- Fisher 105 - Installed starting in 1981.
- Reliance K regulators with dates of 1962 and earlier - Installed starting in 1948.
16. Please identify total costs of repairing gas line breaks caused by others and total reimbursement received from others in each of the past five years. Disaggregate the costs of repairing line breaks caused by others into capital, O&M expense, and cost of removal for each year. Disaggregate the method by which the reimbursement is accounted for (other operating revenue, gross salvage, or contribution in aid of construction) for each year.

SoCalGas Response: Shown below is a comparative five-year history of the total costs (invoice amounts for labor, materials, and associated overheads) and reimbursements received from others for repairing gas line breaks. All costs are O&M.

<table>
<thead>
<tr>
<th>Year</th>
<th>Invoices for Repairing Gas Line Breaks</th>
<th>Payments Received in Year of Invoice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$ 771,530.69</td>
<td>$ 758,347.52</td>
</tr>
<tr>
<td>1998</td>
<td>$1,530,305.34</td>
<td>$ 944,033.38</td>
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<tr>
<td>1999</td>
<td>$1,667,742.75</td>
<td>$1,049,813.19</td>
</tr>
<tr>
<td>2000</td>
<td>$1,347,601.09</td>
<td>$ 806,353.19</td>
</tr>
<tr>
<td>2001</td>
<td>$1,594,150.03</td>
<td>$1,022,968.81</td>
</tr>
</tbody>
</table>

Payments received for damages offset the field accounts charged to repair damages.
17. Please provide SoCal’s last five years of recorded expenditures on

a. Gas leak repair, and

b. Gas pipeline replacement. For pipeline replacement please further provide the number of feet of pipeline replaced (by the size of pipeline replaced, if available).

c. Identify capitalized amounts (divided into plant-in-service and cost of removal by FERC account) and expensed amounts by FERC account.

**SoCalGas Response:**

a) Recorded Distribution Gas Leak Repair - Direct Nominal Expenditures:

   1997   $4,134,463  
   1998   $4,333,433  
   1999   $4,325,603  
   2000   $4,259,223  
   2001   $5,079,023  

b) Recorded SoCal Pipeline Replacement - Direct Nominal Expenditures

   1997   $10,961,563  
   1998   $9,981,869   
   1999   $7,975,139   
   2000   $19,505,633  
   2001   $27,589,034  
SoCalGas Response Question 17 (Continued)

17b). Feet of Pipeline Replaced by Size:

<table>
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<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
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<td>2,311</td>
<td>2,364</td>
<td>1,260</td>
<td>112</td>
<td>261</td>
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<tr>
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<td>50,364</td>
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<td>84,449</td>
<td>9,800</td>
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</tr>
</tbody>
</table>

Footage With No Size Identified | 72,881 | 815 | 306 | 32,230 | 454 |

TOTAL FOOTAGE REPLACED | 933,15 | 707,365 | 593,484 | 915,667 | 938,979 |
SoCalGas Response Question 17 (Continued)

17 c) Shown below is Plant in service (Additions) and Removals for Account 367 Transmission Mains and Account 376 Distribution Mains for years 1997 – 2001. O&M costs associated with these additions and removals are charged directly to the appropriate FERC O&M account and thus not tracked to individual work orders.

(Nominal Fully Allocated Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Account 367 Additions</th>
<th>Account 367 Removal</th>
<th>Account 376 Additions</th>
<th>Account 376 Removal</th>
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<td>870,886</td>
<td>33,392,431</td>
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<td>923,950</td>
<td>36,429,218</td>
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<td>4,343,055</td>
<td>358,351</td>
<td>43,877,340</td>
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<td>212,605</td>
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