

Introduction

San Diego Gas & Electric Company (SDG&E[®]) is providing this Annual Notice of the natural gas services that are currently available to you as a large core and/or noncore gas customer.¹

Should you have any questions about your service options or if you would like additional details regarding any of the information provided in this notice, please contact your SDG&E Account Executive or call SDG&E's Business Contact Center at 1-800-336-7343. You can also visit SDG&E's website at www.SDGE.com.

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¹ SDG&E provides service in accordance with its authorized tariffs, approved under the regulation of the California Public Utilities Commission (CPUC). This Notice is provided strictly for informational purposes only. SDG&E has made reasonable efforts to ensure all information contained in this notice is correct and consistent with its authorized tariffs. In the event of any conflict, the tariffs shall govern in all cases. In addition, neither SDG&E publication nor verbal representations thereof constitutes any statements, recommendation, endorsement, approval or guaranty (either express or implied) of any product or service. Moreover, SDG&E shall not be responsible for errors or omissions in this publication or for claims or damages relating to its use thereof, even if SDG&E has been advised of the possibility of such damages.

Service Classifications and Service Options

SDG&E gas customers receive service under an applicable rate schedule that is based on the type of facility and the conditions under which SDG&E provides gas service. Based upon information provided by the customer at the time of application for service, SDG&E places the customer on the applicable rate schedule approved by the California Public Utilities Commission (CPUC).

SDG&E delivers natural gas to both residential and non-residential customers. Gas deliveries to single-family, multi-family, and master-metered domestic dwellings are generally considered residential service.² There are several types of non-residential customers: core commercial and industrial (C&I), core electric generation (core EG³), natural gas vehicle (NGV), noncore C&I, and noncore EG.

The priority of service, rates, and service options applicable to each of these customer classes vary considerably. The applicable rates and terms and conditions of service are determined by the type of customer and service priority level⁴ and are posted on the [SDG&E website](#).

Core Service Classification

All residential customers are classified as core customers and receive Priority P-1 service, the highest priority of service.

Gas service to non-residential core customers is divided into three general classifications: small core C&I/NGV, large core C&I/NGV, and core EG.

1. Small core C&I/NGV customers are customers whose consumption through a single meter does not exceed an annual monthly average of 20,800 therms⁵ per active month⁶. Small core C&I/NGV customers receive Priority P-1 service.
2. Large core C&I/NGV customers are customers whose consumption through a single meter is greater than an annual monthly average of 20,800 therms. Large core C&I/NGV customers receive Priority 2-A service, the next highest priority. Large core C&I customers are eligible to receive noncore gas transportation service. NGV customers are not eligible for noncore service.
3. Core EG customers are EG customers whose actual (or projected with verifiable documentation) annual consumption does not exceed 250,000 therms and have not elected to receive noncore transportation services, as described below. Additionally, an EG customer whose generators rated capacity is equal to or less than one megawatt (MW), regardless of gas usage level, is eligible for core service. Core EG customers whose consumption through a single meter does not exceed an annual monthly average of 20,800 therms per active month receive Priority P-1 service. Core EG customers whose consumption through a single meter exceeds an annual monthly average of 20,800 therms per active month receive Priority 2-A service. EG customers whose

² Natural Gas Service for Core Non-Residential Customers is optionally available under rate Schedule GN-3 to customers with separately metered, common area use service to residential, multi-family accommodations, as defined in [SDG&E's Gas Rule 1](#).

³ EG is the use of natural gas to generate electricity, either directly or indirectly, including natural gas used for cogeneration or solar electric generation projects. Small electric generation customers have the option to take service under the core classification.

⁴ See [SDG&E's Gas Rule 14](#) – Shortage of Gas Supply, Interruption of Supply, and Priority of Service, J. End-Use Priority Classification

⁵ Therm is a unit of measurement for billing purposes, nominally 100,000 Btu.

⁶ An active month is defined as any month the customer uses over 1,000 therms.

generators capacity exceeds one MW with usage in excess of 250,000 therms per year are not eligible for core service and must receive noncore service. EG customers electing core service will be assigned the customer classification of the applicable rate schedule they have selected.

Core Commercial & Industrial and Core Electric Generation Service Options

Core C&I and core EG customers are subject to a monthly customer charge and a declining block rate structure. See [SDG&E's Schedule GN-3](#) for details.

Bundled Core Service Option

Under bundled service SDG&E performs all of the functions (procurement, scheduling, transportation, and balancing) necessary to deliver gas to a customer's facility. With the exception of certain EG customers that are not eligible for core service, all customers not electing otherwise will automatically receive bundled core service.

Core Aggregation Transportation Service Option

Customers can choose to participate in SDG&E's Core Aggregation Transportation (CAT) program. To participate in the CAT program, customers are required to select a Core Transport Agent (CTA) to manage gas procurement, scheduling, balancing, and certain transportation needs. The CTA is responsible for delivering the customer's gas supplies into the SoCalGas/SDG&E system. SDG&E will accept gas delivered on the customer's behalf and transport it to the customer's facility. A list of participating CTAs is located on the [SDG&E Gas Customer Choice website](#) or you may call SDG&E's Business Contact Center at 1-800- 336-7343.

Core Transportation-Only Service Option

Under this service option, core customers with annual usage in excess of 120,000 therms or average monthly usage of 10,000 therms can elect to make independent arrangements to procure gas supplies and to transport those supplies over the interstate pipeline systems for delivery into the SDG&E system.

SDG&E will transport the customer's gas supplies to the customer's facility. Customers requesting service under this option are required to complete a [Request for Core Transportation-Only Services](#) (Form 142-1859).

Natural Gas Vehicle Service Options

Natural Gas Vehicle Service Option

Customers who operate natural gas fueled motor vehicles will be served under a separate core rate schedule, which require separate metering from other gas uses the customer may have⁷. See [SDG&E's Schedule G-NGV](#) . NGV customers are not eligible for noncore service.

Noncore Customer: Eligibility, Requirements & Service and Priority Levels

Noncore customers are C&I customers that have actual (or projected with verifiable documentation) consumption through a single meter that is equal to or greater than an annual monthly average of 20,800 therms and that elect noncore gas transportation service.

⁷ Individually metered residences are excluded from this requirement. Residential customers may choose to install a separate meter and take service under [SDG&E's Schedule G-NGV](#), use the existing residential meter and take service under the applicable residential rate schedule, or elect to receive service under the terms and conditions of [SDG&E's Schedule G-NGVR](#).

Customers not meeting the eligibility criteria for noncore service may qualify conditionally for noncore service by submitting a written request to SDG&E with verifiable information documenting the circumstances that will result in an expected load increase that would meet the minimum noncore eligibility requirements on a permanent basis. The customer's written request must acknowledge that if actual usage following the conditional classification is less than the required minimum, all bills previously rendered under the noncore rate will be re-calculated and billed in accordance with the otherwise applicable rate schedule. SDG&E reserves the right to accept or reject any such request.

All EG customers are eligible to elect noncore gas transportation service, regardless of usage. EG customers whose annual gas usage is equal to or less than 250,000 therms are eligible to elect core service under [SDG&E's Schedule GN-3](#). EG customers with electric generation capacity less than or equal to one megawatt are eligible for core service, regardless of usage. Core EG customers must continue to meet the core eligibility criteria at all times or they will be placed on an appropriate noncore service rate schedule. Core EG customers are not required to separately meter EG gas usage. Under conditions when existing EG equipment is already separately metered, such metering will be kept in place unless the customer receives authorization from SDG&E to alter the metering configuration. Customers are generally responsible for all metering alteration costs.

All customers electing noncore gas transportation service are required to submit a completed [Request for Retail Noncore Gas Services Agreement](#) (Form 142-1259).

Noncore customers must either accept responsibility for managing their own gas procurement, scheduling, balancing, and certain transportation needs independently or through an assigned agent, or arrange to have these needs fully managed by a Contracted Marketer ("CM"). In either case, subject to the applicable conditions set forth in its CPUC-approved tariffs, SDG&E will accept the gas delivered into its system by the customer or on the customer's behalf and transport it to the customer's facility. If a customer contracts with a CM, the CM is responsible for all imbalance charges. See [SDG&E's Gas Rule 30](#) and [35](#). A list of participating gas suppliers is located on the [SDG&E website](#) or you may call SDG&E's Business Contact Center at 1-800-336-7343.

Noncore Transmission and Distribution Level Service

- ***Transmission Level Service***

This service is applicable to noncore customers served directly from the Utilities' transmission system or who otherwise qualify for Transmission Level Service, as defined in [SDG&E's Schedule TLS](#). Schedule TLS offers two general rate options: a) Class Average All-Volumetric Rate Option; and b) Reservation Rate Option which provides for a fixed monthly charge plus a volumetric charge that varies based on usage level. The term of service for both options is three years. See [SDG&E's Schedule TLS](#) for more details.

Transmission Level Service customers requesting service under Schedule TLS are required to submit a completed [Request for Retail Noncore Gas Services Agreement](#) (Form 142-1259), a completed Transmission Level Rate Selection Form (Form 142-1265) and meet all of the applicable conditions of service as specified in the applicable tariffs.

- ***Noncore Distribution Level Service***

Distribution Level Service is provided to noncore customers that are not eligible for service under Schedule TLS. See [SDG&E's Schedule GTNC](#) and [SDG&E's Schedule EG](#) for more details.

Metering & Billing Options

Based upon a customer's noncore service election, SDG&E may be required to install, at the customer's expense, an automated meter reading (AMR) device which enables SDG&E to remotely read a customer's meter. See [SDG&E's Gas Rule 27](#).

For customers who have both electric generation and non-electric generation end use volumes measured through a single meter, the amount of gas billed under the EG rate will be as specified in Special Condition 11 of [SDG&E's Schedule EG](#) or Special Conditions 16, 17 and 18 of [SDG&E's Schedule TLS](#). EG customers receiving service under Schedule EG or Schedule TLS shall be separately metered unless it can be demonstrated that a separate meter is not economically feasible.

SDG&E bills its customers based on the rates and conditions of service approved by the CPUC. For non-residential customers, the rate is applied and billed by facility⁸ or on a customer's premises⁹. Requests for services that deviate from SDG&E's authorized tariffs require approval from the CPUC.

Noncore Transportation Service Options and Priority Levels

Noncore customers are further categorized as receiving "firm" or "interruptible" noncore gas transportation service. Noncore customers receive a lower priority of service compared to the priority of service provided to core customers, with interruptible noncore gas transportation service having the lowest level priority of service.

- ***Firm Intrastate Transportation Service***

This service option provides noncore customers with firm intrastate transportation service and requires a two-year contractual commitment from the customer. See [SDG&E's Gas Rule 14](#) and [25](#).

- ***Interruptible Intrastate Transportation Service***

This service option provides noncore customers with interruptible intrastate transportation service and requires the customer to make a one-month contractual commitment. In the event of a gas curtailment, interruptible service customers are subject to curtailment before firm service customers. See [SDG&E's Gas Rule 14](#) and [25](#).

Pipeline Capacity Open Season for Firm Intrastate Gas Transportation Service

Every two years, all noncore-eligible customers (existing and new) are invited to participate and bid for firm service in the SDG&E Pipeline Capacity Open Season (Open Season). SDG&E is considered a potentially capacity-constrained area¹⁰. Bidding for SDG&E's Open Season will take place in April 2017. Contracts resulting from this year's open season will become effective June 01, 2017.

The primary purpose of the Open Season will be to allocate available capacity on SDG&E's gas system among the customers that submitted bids for firm service. Customers whose bids are awarded will be obligated to monthly service commitments for the duration of a two-year contract period. Under a firm

⁸ Excludes service to EG and NGV customers. A facility is defined as the individual gas meter on the customer's single premises.

⁹ A customer's premises is all of the property employed in a single enterprise on an integral parcel of land undivided by a dedicated street, highway or other public thoroughfare, or a railway. See SDG&E's Gas Rule [1](#), [15](#), and [16](#).

¹⁰ A Potentially Capacity-Constrained Area is defined in [SDG&E's Gas Rule 1](#): Segments of the local transmission system in which customer requests for firm transportation service currently exceed, or within the next five years may exceed, available capacity. Such requests must be based on historical usage or evidence which substantiates expected incremental load.

service contract, the customer must use at least 75 percent of its firm service commitment each month or be subject to “use-or-pay” charges. Any applicable use-or-pay charges are assessed monthly.

Noncore-to-Core transfers

Eligible noncore customers are allowed to transfer to core service. Firm service noncore customers electing to transfer to core prior to the expiration of their noncore service commitment remain obligated to the use-or-pay obligations under the contract. In addition, firm and interruptible noncore customers electing to transfer to core transportation-only service or to bundled core service are required to make a five-year commitment to core service. Noncore customers electing to transfer to bundled core service under [SDG&E’s Schedule GN-3](#) will be charged the “cross-over” procurement rate contained in [SDG&E’s Schedule GN-3](#) for the first year of the required five-year commitment.

Additional Services and Information for Gas Transportation Customers

Calculation of Curtailment Violation Charges

SDG&E gas customers will be curtailed in accordance with the provisions of [SDG&E’s Gas Rule 14](#). In order to determine if a Customer is subject to violation charges for not complying with the Curtailment Order, SDG&E will determine the hourly gas usage volumes that exceed the Customer’s authorized curtailment quantity beginning the first hour of the Curtailment. Curtailment charges for non-compliance shall apply hourly for such hourly volumes that exceed the Customer’s authorized curtailment quantities, as specified under [SDG&E’s Gas Rule 14](#):

1. \$1 per therm for the first five hours,
2. \$3 per therm for the next three hours,
3. \$10 per therm for the remaining curtailment period.

Customer is also subject to the charges under the customer's applicable rate schedule.

Transportation Balancing Services

If a customer receives firm or interruptible intrastate transportation service, SDG&E will provide the noncore customer or its’ CM with balancing services. Under the balancing service rules, gas usage and gas deliveries into SDG&E’s system must be balanced within a prescribed tolerance band or the customer or CM will be subjected to imbalance charges. Violations of the balancing rules are subject to balancing violation charges. See [SDG&E’s Schedule G-IMB](#), [SDG&E’s Gas Rule 1](#) and [30](#).

Customers or their CM’s may trade gas when their monthly gas balance is outside of the 10% monthly tolerance limit. Imbalance quantities outside the tolerance band at the end of the imbalance trading period will be subject to a Standby Procurement Charge or Buy-Back Rate as described in [SDG&E’s Schedule G-IMB](#). Additionally, SDG&E/SoCalGas under certain situations can impose daily balancing requirements through the institution of an Operational Flow Order (either high or low). See [SDG&E’s Rule 30](#) Sections F and G and [SoCalGas Rule 41](#).

If, as a result of a billing error, metering error, or transportation adjustments, a customer, a customer’s Agent or CM makes a trade based on what turns out to be incorrect imbalance quantities based on notification by SDG&E, SDG&E will not be liable for any financial losses or damages incurred by the customer, Agent, or CM or their imbalance trading partners.

Negotiation of Intrastate Curtailment and Diversion Order

Pursuant to the provisions set forth in [SDG&E's Gas Rule 14](#), Section M.5, firm and interruptible noncore customers may negotiate among themselves the order of gas supply curtailments or diversions.

State Regulatory Fee Exemption

An electric generator that sells all or a portion of its electricity production wholesale to an electric, gas, or steam public utility or the California Independent System Operator can apply for an exemption from all or a portion of the applicable charges under [SDG&E's Schedule G-PUC - Surcharge To Fund Public Utilities Commission Reimbursement Fee](#). See [SDG&E's Schedule G-PUC](#) for more details.

Other Services and Programs for Gas Transportation Customers

Access to the SDG&E Pipeline System (Rule No. 39)

SDG&E provides nondiscriminatory open access to its system to any party for the purpose of physically interconnecting with SDG&E and effectuating the delivery of natural gas, subject to the terms and conditions set forth in [SDG&E's Gas Rule 30](#) and [39](#).

Backbone Transportation Service Rights

SoCalGas implemented a system of firm access rights on October 1, 2008 in compliance with Decision No. 06-12-031. This service, renamed Backbone Transportation Service (BTS), was modified on October 1, 2011 in compliance with Decision 11-04-032. BTS enables customers and gas suppliers (including California gas producers) to hold firm and/or interruptible BTS rights at receipt points into the SDG&E/SoCalGas integrated gas transmission system and to transport gas to end-users, pooling contracts, SoCalGas' storage fields, and off-system. For more information, visit the [SoCalGas Backbone Transportation](#) website or see [SoCalGas' Schedule G-BTS](#).

Electronic Bulletin Board

SDG&E's customers may sign up for SoCalGas' electronic information and gas management system, [SoCalGas Envoy](#)®, which is designed specifically for transportation customers, their Agents and CMs to manage gas supplies and imbalances. With this software, a customer can submit its gas nominations and obtain allocated gas quantities, post its imbalance advertisements and submit its imbalance trades, obtain gas usage information for its facility, and view its storage inventory balances. Customers must meet all of the Utility's requirements for authorization to access the EBB, including the execution of an Electronic Bulletin Board Agreement. See [SoCalGas' Rule 33](#).

Energy Efficiency Programs

SDG&E may be able to assist a customer in reducing its operating costs by helping the customer invest in certain high efficiency gas technologies and/or process improvements that save natural gas. All core and noncore C&I customers are eligible for our Energy Efficiency programs. Some of the Energy Efficiency rebates and incentives require the customer to pre-qualify their project and execute an agreement prior to purchasing their equipment. Please verify the specific program requirements at the [SDG&E Rebates & Incentives for your Business](#) website or check with your account executive before proceeding with your project.

Hub Services

SDG&E's customers may elect to receive park and loan services through [SoCalGas' Schedule G-PAL](#). Gas parking is the temporary storage of gas on the Utility's system and gas loaning is the temporary lending of gas from the Utility's system. More information about Hub services can be found by visiting [SoCalGas California Energy Hub](#).

Off-System Gas Delivery Service

SDG&E's customers may elect to participate in SoCalGas' Off-System Gas Delivery service. Off-system delivery service is the capability, on an interruptible basis, to deliver to the interconnection points within the Pacific Gas & Electric Company (PG&E) system and with all interstate and international pipelines ("Upstream Pipelines"), but excluding California-produced gas supply lines. For more information and requirements, see [SoCalGas' Schedule G-OSD](#).

Self-Generation Incentive Program (SGIP)

"Self-generation" refers to distributed electric generation technologies (e.g., wind turbines and fuel cells), installed on the customer's side of the electric billing meter, that provide electricity for all of a portion of the customer's electric load. The Self-Generation Incentive Program (SGIP) provides financial incentives for the installation of clean, efficient on-site distributed generation technologies. SGIP is a ratepayer-funded rebate program, overseen by the CPUC and is available to qualified SDG&E customers. The Center for Sustainable Energy (CSE) is the program administrator for SDG&E territory. Visit [CSE website](#) for more SGIP information.

Unbundled Storage

SDG&E's customers may acquire gas storage capacity rights from SoCalGas. Gas storage can be used to increase a customer's service reliability, take advantage of seasonal fluctuations in gas prices, and provide increased flexibility in balancing a customer's gas deliveries with the actual usage at its facility. SoCalGas offers "firm" or "interruptible" services for gas storage inventory, injection, and withdrawal capacity rights. More information about Storage services can be found by visiting [SoCalGas California Energy Hub](#) or see [SoCalGas' Schedule G-TBS](#).

Customer Responsibilities

Changes in gas usage

Customers are responsible for notifying SDG&E of any material change in gas usage. In the event there are changes in the conditions of a customer's operations resulting in permanent changes in gas usage, it is the customer's responsibility to apply for service under a different rate schedule for which the customer may qualify. A customer that changes rate schedules will not be relieved of use-or-pay obligations arising from commitments made in association with services provide under the prior rate schedule. See [SDG&E's Gas Rule 12](#). When there is a material change, either in the amount or character of the energy-related appliances or equipment installed at the customer's facility, the customer must immediately notify SDG&E, in writing, of the change. See [SDG&E's Gas Rule 3](#).

Customer Equipment for Receiving and Utilizing Gas

Customers are responsible for furnishing, installing and keeping in good and safe condition all equipment, e.g., regulators, gas pipes, appliances, fixtures and apparatus, which may be required for receiving and utilizing gas from SDG&E. Customers' gas piping must meet all applicable federal codes and standards. Customers should be aware of the potential hazards resulting from corrosion leakage of buried gas pipes and are reminded to maintain their gas pipes by having them periodically inspected for corrosion and

leaks and by having any unsafe conditions repaired immediately. Qualified professionals such as plumber and heating contractors can assist in finding, inspecting and repairing buried pipes. See [SDG&E's Gas Rule 26](#).

Updating SDG&E in the event of changes to customer information

Customers are responsible for notifying SDG&E, in writing, of any changes in customer name, ownership or business structure. A customer's name shall be recognized by the signature on the application, contract, or agreement for gas service. A customer may also be recognized by the payment of bills issued regularly in the customer's name. In the event there is a change in a customer's business structure, the customer must provide SDG&E immediate notice, in writing, of such change.

Important Information on Natural Gas Odorant and Purging of Natural Gas

Natural Gas Odorant and Odor Fade

SDG&E adheres to Department of Transportation (DOT) and CPUC rules and regulations regarding the odorizing of natural gas. SDG&E adds an odorant to give natural gas a distinctive odor so leaks can be more readily detected. However, one should not rely on sense of smell alone to be alerted to a natural gas leak. There are a number of reasons why sense of smell might not be enough to alert one to the presence of natural gas. For example, some persons may not be able to detect the odor because they have a diminished sense of smell or are experiencing olfactory fatigue (temporary, normal inability to distinguish odor after a prolonged exposure to it). Some physical conditions, including common colds, sinus conditions, allergies, eating certain foods, inattentiveness, and the use of tobacco, alcohol, drugs and certain medications may also lessen the ability to smell the odor. In addition, the odor may be masked or hidden by other odors that are present, such as cooking, damp, musty or chemical odors. And, certain conditions in pipe and soil may cause "odor fade" - the loss of odorant so that it is not detectable by smell.

Odor fade results from physical and/or chemical processes which cause the loss of odorant in natural gas so that its distinctive odor may no longer be detectable by smell. The processes that cause odor fade include adsorption, absorption, oxidation, or any combination thereof. In gas piping systems, odor fade occurs predominantly in new steel pipe - steel pipe that has either been recently manufactured or which has not been previously used for odorized natural gas. Odor fade can also occur in previously used or existing gas pipe under certain conditions, such as where rust is present or when gas flow is limited or intermittent. Odor fade may also occur in pipe made of other materials. While it is often more pronounced in pipe installations of larger diameter and longer length, odor fade can also occur in smaller and shorter pipe configurations.

Care should be taken in the selection and use of pipe to be utilized in natural gas piping systems. Such systems should be designed and configured to ensure that there is a continuous flow of gas though the entire system. In addition, care should be taken in the construction of such systems or when fabricating gas pipe to prevent the introduction of substances, such as rust, moisture, liquids and pipe compounds that may contribute to odor fade. New pipeline installations or additions of new piping segments may require the odor conditioning of the pipe before being placed into service to prevent occurrences of odor fade. Odor conditioning should ONLY be performed by qualified gas professionals. See [SDG&E Natural Gas Odorant Fade Bulletin](#).

If a gas leak occurs in underground piping, the surrounding soil or fresh concrete can adsorb or oxidize the odorant so that the gas no longer has an odor. As a result, gas leaking from an underground pipe may not be detectable by smell. **For any suspected gas emergency, or questions regarding a gas odor or carbon monoxide, please call us immediately at 1-800-411-7343.**

Purges and Other Planned Releases of Natural Gas

Purging of gas lines, blow-downs and other planned releases of natural gas should ONLY be performed by qualified gas professionals. Such gas release operations should only be performed in well-ventilated areas or by safely venting the contents of gas lines and equipment to the outside atmosphere away from people, animals, structures and sources of ignition. All possible ignition sources should be identified and extinguished before and during such operations. Consider using gas detection equipment during all gas release operations to prevent gas from accumulating and creating a combustible or hazardous atmosphere. **DO NOT RELEASE THE CONTENTS OF A GAS LINE INTO A CONFINED SPACE.** For more safety information, visit [SDG&E Safety](#).

Regulatory Filings and Pending CPUC Proceedings

There are several initiatives and pending decisions at the CPUC that may affect your gas service and/or your bill(s). The following summarizes some of the proceedings that may be of interest to you; however, for a comprehensive overview of ongoing proceedings, visit [SDG&E CPUC Proceedings](#).

Greenhouse Gas (GHG) Reporting Requirements

SDG&E is required by the United States Environmental Protection Agency (EPA), under their greenhouse gas (GHG) mandatory reporting requirements (MRR) regulations, to provide them with customer data for facilities that receive over a certain volume of natural gas deliveries. SDG&E first reported customer data in fall 2011, and will do so annually going forward. Customer information is considered as Confidential Business Information, pursuant to CPUC policy of maintaining customer information confidentiality. We also report annually to the California Air Resources Board (CARB) GHG emissions from sources owned by SDG&E under their MRR regulation. Many larger customers are also subject to CARB's MRR regulation, and have been reporting their combustion GHG emissions to CARB. In the event SDG&E is required to provide customer-specific information to governmental agencies for these or other regulations, efforts shall be undertaken to ensure the confidential nature of that information consistent with law.

Greenhouse Gas (GHG) Rulemaking

On March 19, 2014, the Commission issued [Rulemaking 14-03-003](#) to address issues related to Greenhouse Gas (GHG) cost and revenues resulting from the implementation of Air Resources Board's (ARB's) GHG Cap-and-Trade program for natural gas corporations.

On December 19, 2014, the CPUC issued [Decision 14-12-040](#) to approve, with modifications, a Phase 1 Settlement between Pacific Gas and Electric Company, the Office of Ratepayer Advocates, Southern California Gas Company, San Diego Gas & Electric Company, and Southwest Gas Company (collectively, the Settling Parties) concerning certain policies, programs, rules and tariffs necessary for natural gas corporations to comply with the California Cap and Greenhouse Gas Emissions and Market-Based Compliance Mechanisms' (Cap-and-Trade Program) regulations imposed by Air Resources Board (ARB) as a result of the California Global Warming Solutions Act of 2006 (Assembly Bill 32).

The ARB regulations are contained in Title 17 of the California Code of Regulations (Title 17). Pursuant to Sections 95840, 95851(b), and 95852(c) of Title 17, natural gas utilities must comply with the Cap-and-Trade regulations beginning January 1, 2015. For more information, see [ARB's Cap and Trade Program](#).

Beginning January 1, 2015, the Cap-and-Trade Program expanded to include emissions from all SDG&E customers. SDG&E is required to purchase carbon allowances or offsets on behalf of our end-

use customers for the emissions generated from the full combustion of the natural gas we deliver. Large end-use customers who emit at least 25,000 metric tons of CO₂ equivalent per year have a direct obligation to the ARB for their own emissions; therefore, SDG&E's obligation will not include these customers and they will not be responsible for compliance costs related to end-users from SDG&E.

The CPUC has recently completed a rulemaking proceeding to determine how the costs related to compliance with the Cap-and-Trade program will be included in end-use customers' rates. The rulemaking also addressed how revenues generated from the sale of directly allocated allowances will be returned to ratepayers. The Rulemaking determined that all Cap-and-Trade compliance costs will be included on a forecasted basis in the customers' transportation rates beginning April 1, 2016. Customers with a direct obligation to the ARB for their emissions are exempt from SDG&E's end-users compliance obligation, and will receive a volumetric credit called the "Cap-and-Trade Cost Exemption" for the amount of their transportation rates that contribute to these costs. All customers' rates will also include compliance costs related to SDG&E's covered facilities, as well as for Lost and Unaccounted For (LUAF) gas. Revenues generated from the sale of directly allocated allowances will be returned as a fixed, once-annual California Climate Credit to all residential households on their April bills. Nonresidential customers will not receive a California Climate Credit.

Pipeline Safety Enhancement Plan (PSEP)

SoCalGas & SDG&E are required to test or replace all natural gas transmission pipelines that have not already been tested, or do not have an adequate record of a pressure test and as a result, SoCalGas & SDG&E have undertaken a multi-year pipeline testing and replacement effort. Phase 1 was started in 2012 and is expected to run continuously in stages for the next ten years. SoCalGas & SDG&E estimate the cost for Phase 1 at \$2.5 billion over ten years. For more information on the Pipeline Safety Enhancement Plan, see [SDG&E PSEP Benefits and Safety](#) and [SoCalGas PSEP](#).

A final CPUC decision was issued in June 2014 that adopted the proposed transmission system enhancement-approach and authorized establishment of balancing accounts to track costs incurred to implement Phase 1, with future recovery subject to a reasonableness review. On December 17, 2014, SoCalGas and SDG&E filed a joint [Pipeline Safety and Reliability Memorandum Account \(PSRMA\) application](#) requesting reasonableness review of PSEP activity and recovery of costs recorded through June 12, 2014. SoCalGas and SDG&E are requesting a decision by late 2015, which will impact rates in 2016.

SoCalGas and SDG&E filed a joint Phase 2 application ([A.15-06-013](#)) in 2015 to request authorization to pressure test or replace pipelines in less populated areas, which may also impact rates in 2016. A December 2015 PSEP decision ordered that all PSEP interim rate recovery requests will be determined in this proceeding. Recovery of a portion of actual PSEP costs subject to refund is expected in 2016.

Southern Gas System Reliability Project

SoCalGas and SDG&E have filed an application with the CPUC for authority to recover North-South pipeline project costs in customer rates, and for approval of related cost allocation and rate design proposals. The North-South Project is needed to maintain Southern System reliability and alleviate the potential for curtailments of customers on the Southern System due to a potential mismatch between the demand of such customers and the volume of flowing supplies delivered to the Southern System to meet that demand.

Triennial Cost Allocation Proceeding (TCAP)

SoCalGas & SDG&E filed applications in December 2014 (Phase 1-[A.14-12-017](#)) and July 2015

(Phase 2- [A.15-07-014](#)) to update the allocation of the costs of providing gas service to customer classes and determine the transportation rates it charges to customers. These costs have been previously authorized by the CPUC for recovery in rates. This Phase 1 Application includes updating the allocation of costs related to the underground storage of natural gas for the period 2016 through 2019 and reducing the monthly GIMB imbalance tolerance from 10% down to 8%. The Phase 2 Application includes updating the allocation of all other costs related to gas transportation service, as well as the demand forecasts used to set rates, for a three-year period of 2017-2019. A final CPUC decision on Phase 1 that will impact rates is expected in early 2016, while a final CPUC decision on Phase 2 is expected in late 2016.

Curtailment Procedures

SoCalGas/SDG&E have filed an application ([A.15-06-020](#)) with the CPUC for authority to revise their curtailment procedures, which are generally provided by SoCalGas Rule 23 and SDG&E Gas Rule 14. The proposed revised rules include a new priority system applicable to customers located in ten defined local service zones. The rules would also incorporate the necessary coordination between the gas system operator and the electric system balancing authorities. Specifically, the revised rules would adopt a new tiered structure for curtailing noncore load as follows: 1) all currently non-dispatched electric generation (EG) load; 2) up to 60% of currently dispatched EG load; 3) up to 100% of non-EG noncore load pro rata, as needed; and 4) the remaining dispatchable EG load. Additionally, the application seeks to eliminate higher service priority for firm withdrawal service, noncore firm and interruptible service election distinctions and potentially constrained capacity open seasons, and replace all firm contracts with month-to-month contracts for transportation service.

Customer Privacy

SDG&E values your privacy. For more information, please refer to our [Privacy Policy](#) and [Privacy Notice](#) on our website at [SDG&E Customer Privacy](#).