



PRELIMINARY STATEMENT

Sheet 1

III. MEMORANDUM ACCOUNTS
CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA)

1. Purpose

The purpose of the CEMA is to record the costs associated with the restoration of service and the utility's facilities affected by a catastrophic event declared a disaster or state of emergency by competent federal or state authorities. The balance in the CEMA will be recovered in rates after CPUC review and audit of the recorded CEMA balance. The authority to establish this account was granted in CPUC Resolution E-3238, dated July 24, 1991.

Should a disaster occur, the utility will, if possible, inform the Executive Director of the CPUC by letter within 30 days after the catastrophic event that the utility has started booking costs in the CEMA.

The letter shall specify the declared disaster, date, time, location, service area affected, impact on the utility's facilities, and an estimate of the extraordinary costs expected to be incurred, with costs due to expenses and capital items shown separately.

The utility shall not record any capital costs or expenses incurred prior to the start of the declared disaster or state of emergency, as identified by the appropriate authorities.

Pursuant to D.97-11-073, generation-related costs, which were incurred after December 31, 1997 and are related to events that occurred prior to January 1, 1998, may be entered into CEMA.

Pursuant to Ordering Paragraph 4e. of D.97-12-131, dated December 30, 1997, no generation-related costs that are caused by events occurring after the date the Commission or its delegates declares to be the start date for direct access, shall be entered into this account.

2. Applicability

The CEMA balance will be recovered from all customer classes, except those specifically excluded by the CPUC.

3. CEMA Rates

The CEMA does not currently have a rate component.

4. Accounting Procedure

Upon declaration of a disaster or state of emergency, the utility shall maintain the CEMA from the date the event causing the disaster occurred by making entries to this account at the end of each month as follows:

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

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Advice Ltr. No. 1820-E

Decision No. _____

Issued by
Lee Schavrien
Vice President
Regulatory Affairs

Date Filed Aug 15, 2006

Effective Sep 14, 2006

Resolution No. _____

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4. Accounting Procedure (Continued)

b. A debit entry equal to:

- (1) Depreciation expense on the average of the beginning and the end-of-month balance of plant installed to restore service to customers, or to replace, repair, or restore any plant or facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth of the annual depreciation rates approved by the CPUC for these plant accounts, plus
- (2) The return on investment on the average of the beginning and the end-of-month balance of plant installed to restore service to customers or replace, repair, or restore any plant of facilities, or to comply with government agency orders, in connection with events declared disasters, at one-twelfth of the annual rate of return on investment last adopted for the utility's electric department by the CPUC; plus
- (3) The return on the appropriate allowance for working capital using calculations last adopted by the CPUC for the electric department, and the return in 4.b.(2) above; plus
- (4) The return on net cost of removal of facilities required as a result of the disaster and related events, using the rate of return in 4.b.(2) above; less
- (5) The return on the average of beginning and end-of-month accumulated depreciation, and on average accumulated net deferred taxes on income resulting from the normalization of federal tax depreciation, using the rate of return in 4.b.(2) above.

c. A debit entry equal to federal and state taxes based on income associated with item 4.b.(2) above, calculated at marginal tax rates currently in effect. This will include all applicable statutory adjustments.

For federal and state taxes, this will conform to normalization requirements as applicable. Interest cost will be at the percentage of net investment last adopted by the CPUC with respect to the utility.

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

e. An entry equal to interest on the average balance in the account at the beginning of the month and the balance after the entries from 4.a. through 4.c. above, at a rate equal to one-twelfth of the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release, H.15, or its successor publication.

Entries in items 4.a. and 4.b. above, shall be made net of the appropriate insurance proceeds.

(Continued)



San Diego Gas & Electric Company
San Diego, California

Original Cal. P.U.C. Sheet No. 19455-E

Canceling Revised Cal. P.U.C. Sheet No. 18574-E

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5. Financial Reporting

The utility may, at its discretion, record the balance in the CEMA as deferred debit on its balance sheet with entries to the appropriate income statement accounts, as necessary.

6. Disposition of Amounts

Disposition of amounts in this account shall be determined in the annual Revenue Adjustment Proceeding (RAP) or other proceeding expressly authorized by the Commission.

Pursuant to OP 2 in D.05-08-037, for electric CEMA costs, the non-capital expenditure portion and the 2003-2005 capital-related revenue requirement shall be amortized in rates beginning October 1, 2005 and ending December 31, 2006. The 2006-2007 capital-related revenue requirement shall be recovered as an annual adjustment to base margin rates effective January 1 of 2006 and 2007.

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Advice Ltr. No. 1820-E

Decision No. _____

Issued by
Lee Schavrien
Vice President
Regulatory Affairs

Date Filed Aug 15, 2006

Effective Sep 14, 2006

Resolution No. _____