

PRELIMINARY STATEMENTS1. TERRITORY SERVED

The territory served includes the area adjacent to the southern shore of Lake Tahoe in El Dorado County, as shown on the Service Area Map.

2. PROCEDURE TO OBTAIN SERVICE

Any person or corporation whose premises are in the Company's service area can obtain service by first signing an application (or, in certain classes of service as shown by these schedules, a contract) on the regular form used by the Company at the time and for the particular class of service desired. Applicant will be required to make satisfactory establishment of credit as hereinafter set forth (and, in some cases, as shown by the following schedules, Applicant will be required to pay a service charge). Where an extension to the Company's mains is necessary, or a substantial investment is required to supply service, Applicant will, upon application to the Company, be informed as to the conditions under which service will be supplied. Applicants for service must also bring themselves within and comply with the established Rules of the Company hereinafter set forth. The mailing address of the Applicant will be used for the purpose of administering these tariff schedules.

3. ESTABLISHMENT OF CREDIT

After making proper application for gas service, it will be necessary, before service can be rendered, for the Applicant to establish his credit with the Company in accordance with Rule No. 6, as contained in the rules hereinafter set forth.

Where credit shall be established by making a cash deposit, such deposit shall be made in accordance with Rule No. 7, as contained in the rules hereinafter set forth.

4. GAS COST RATES

A. Gas Cost Rates to recover the total cost of purchased gas will be included in each of the Company's rate schedules.

B. Gas Cost Rates shall be set as follows:

1. The Gas Cost Rates will be changed only upon prior approval of the Commission either in a general rate case or in response to the Company's advice letter filings.
2. The Company may file for a change in the Gas Cost Rate when required, but not sooner than four months after the date of the previous filing.

PRELIMINARY STATEMENTS

(Continued)

4. GAS COST RATES *(Continued)*

3. Advice filings to change the Gas Cost Rate shall derive the requested rates utilizing the latest calendar or estimated year (test year) purchases, sales, uncollectible accounts expense and franchise tax expense for each district as follows:

(a) Derive the revenue requirement to recover current purchased energy costs by re-pricing test year purchases on the latest purchased Gas Cost Rate or tariff.

(b) Derive an annualized revenue requirement to clear the current Purchased Gas Cost Balancing Account as determined in 4.C. The annualized revenue requirement to clear this account may utilize an amortization period as required to maintain a minimum balance in the Purchased Gas Cost Balancing Account.

(c) Derive a total revenue requirement by combining the amounts calculated in 3(a) and 3(b) and adjusting for gross revenue deduction including franchise tax expense and uncollectible accounts expense.

(d) Derive the average cent per therm Gas Cost Rate required by dividing the amount calculated in 3(c) by the test year therm sales. The actual Gas Cost Rate for each utility rate schedule will be in accordance with Commission policy at the time of filing.

C. Purchased Gas Cost Balancing Account

1. Purpose

The purpose of this Balancing Account Provision is to carry out the provisions of Assembly Bill No. 2548, which added Section 792.5 to the Public Utilities Code.

2. Applicability

This Balancing Account Provision shall be applicable to all purchased gas costs and all revenues from Gas Cost Rates.

PRELIMINARY STATEMENTS*(Continued)*4. GAS COST RATES *(Continued)*

3. The Company shall maintain a Purchased Gas Cost Balancing Account for each district. Entries shall be made to this Account at the end of each month as follows:

- (a) A debit entry equal to the invoiced purchased gas cost for the month, less
- (b) A credit entry equal to the revenues from Gas Cost Rates, adjusted for the percentage utilized in setting the Gas Cost Rates for franchise taxes and uncollectible accounts expense; plus
- (c) A debit entry, if positive (credit entry, if negative) of interest at the rate of 1/12 of the most recent month's interest rate on Commercial Paper plus 50 basis points (prime, 3 month), published in the Federal Reserve Statistical Release G.13, of the average amount in the Account for the current month. The average balance shall be calculated by adding the current month's beginning balance and ending balance and dividing by 2.

5. SYMBOLS

Whenever tariff sheets are refiled, changes will be identified by the following symbols:

- (C) To signify changed listing, rule or condition which may affect rates or charges.
- (D) To signify discontinued material, including listing, rate, rule or condition.
- (I) To signify increase.
- (L) To signify material relocated from or to another part of tariff schedules with no change in text, rate, rule or condition.
- (N) To signify new material including listing, rate, rule or condition.
- (R) To signify reduction.
- (T) To signify change in wording of text but not change in rate, rule or condition.

PRELIMINARY STATEMENTS
(Continued)

6. SUPPLY ADJUSTMENT MECHANISM (SAM)

A. Applicability

This Supply Adjustment Mechanism (SAM) provision applies to bills for service under all rate schedules and contracts for gas service.

B. Basic Rates

The Basic Rates are gas tariff rates and miscellaneous revenues effective January 1, 1983. However Basic rates do not include CFA, PUC, LIRA Surcharge, LIRA Discount, and Gas Cost Rates.

C. Base Costs Account

The Base Cost Amount is the total basic rates revenue authorized.

	<u>Decision No.</u>	<u>Base Cost Amount</u>
South Tahoe District	C-253-G	\$3,152,933

D. Current Period

The volumes of gas, expressed in therms, to be utilized hereunder shall be those sold during the latest calendar or estimated year (test year).

E. Revision Dates

The Company may file for a change in SAM rates when required, but such filing shall be in conjunction with the appropriate Gas Cost Rate filing as determined in item No. 5 of the Preliminary Statements. At such time, or as soon thereafter as the Commission may authorize, the Company shall, in accordance with the provisions hereof, increase or decrease the SAM rates applicable to each rate schedule and contract.

F. SAM Rates

The Commission shall determine and fix applicable SAM rates to be placed into effect for each revision period. The Company shall file one or more exemplary SAM rates to recover the Supply Adjustment Amount set forth in sub-paragraph H.

PRELIMINARY STATEMENTS*(Continued)*6. SUPPLY ADJUSTMENT MECHANISM (SAM) *(Continued)*

G. Current Supply Recovery Amount

The Current Supply Recovery Amount shall be the revenues calculated at Basic Rates for the current period.

H. Supply Adjustment Amount

The Supply Adjustment Amount shall be the difference between the Base Cost Amount and the Current Supply Recovery Amount, plus the balance in the Supply Adjustment Account, determined as specified in Section I below, at the end of the latest available month at the time of the computation being made under the provisions of this Section.

I. Supply Adjustment Account

Beginning as of the date this Supply Adjustment Mechanism provision becomes effective, the Company shall maintain a Supply Adjustment Account. Entries shall be made to this account at the end of each month as follows:

(a) A debit entry equal to, if positive (credit entry, if negative):

(1) One-twelfth of the Base Cost Amount, less

(2) The amount of Gas Department revenue billed during the month at Basic Rates (Margin) including miscellaneous revenues plus revenue billed during the month under SAM Rates.

(b) An entry equal to the current interest percentage applied to the average of the balance in the account at the beginning of the month and the balance in the account after entries (1) and (2) above. Such interest shall be 1/12 of the most recent month's interest rate on Commercial Paper plus 50 basis points (prime, 3 month), published in the Federal Reserve Statistical Release G.13.

J. Time and Manner of Filing and Related Reports

The Company shall file revised Adjustment Rates with the California Public Utilities Commission in a manner consistent with item No. 5 of the Preliminary Statements. Each such filing shall be accompanied by a report which shows the derivation of the adjustment to be applied. A results of operation report for the prior year will be filed by April 15, of each year.

PRELIMINARY STATEMENTS*(Continued)*6. SUPPLY ADJUSTMENT MECHANISM (SAM) *(Continued)*

- K. These rates remain subject to further adjustment and/or refund, with interest, pending Commission review of compliance with Commission Decision No. 88-01-061, pursuant to Ordering Paragraph 14 thereof.

7. IMPLEMENTATION OF THE INCREMENTAL PRICING PROVISIONS OF THE FEDERAL NATURAL GAS POLICY ACT

- A. The following procedure is pursuant to the provisions of the Natural Gas Policy Act of 1978 and the Federal Energy Regulatory Commission's (FERC) Orders Nos. 49, 50 and 51 in Dockets Nos. RM79-14 and 79-21. Beginning January 1, 1980 and effective for each billing period there after, non-exempt industrial boiler fuel customers as defined in

Rule 1 will be subject to billings based on either the regular filed gas rates of the Company or the filed applicable alternative fuel cost ceiling rates, whichever result in a higher bill after any applicable state or local taxes. Sale-for-resale (wholesale) customers are subject to the same federal legislation and regulations noted above and bills rendered to such customers by the Company will be in accordance there with, if applicable.

- B. Whenever the cost of alternative fuel reaches or exceeds 90 percent of the regular gas rate, the alternative fuel cost shall be filed on or before the first day of each calendar month. This rate is to be effective on the first of each month for all usage recorded in the next billing period ending with the meter reads occurring in the following month.
- C. If the alternative fuel cost ceiling is applicable, then any revenues collected above that resulting from the regular filed rate (excluding applicable taxes) shall be credited to the PGA balancing account.
- D. Alternative fuel cost ceiling rates will be applicable to the Company's service area, based on the EIA data: Region H applies to the South Lake Tahoe service area.

8. INTEREST

No interest will be paid by the Company unless it is specifically provided for in the tariff schedules, or ordered by the Public Utilities Commission, except as otherwise provided by Federal Public Law 97-177.

PRELIMINARY STATEMENTS*(Continued)*9. ECONOMIC CARRYING CHARGE

A. GENERAL

The Economic Carrying Charge is a one-time carrying charge applicable to the customer-contributed portion of the main extensions, service extensions, or any other facilities. The charge is computed in accordance with Method 5 as ordered in CPUC Decision No. 87-09-026 (I.86-11-019). Customer contributions shall include but not be limited to cash, services, facilities, labor and property provided by a person or agency to the Company. The value of all contributions shall be based on the Company's estimates. Contributions shall consist of two components for the purpose of recording transactions as follows:

1. Economic Carrying Charge of contributions, and
2. The balance of the contributions, excluding the Economic Carrying Charge.

The Tax Reform Act of 1986 treats all customer-contributed facilities as income to the Company and, therefore, subject to Federal Income Tax. The Company pays the income tax in the year of receipt. The income tax paid by the Company is, then, recovered over the life of the facilities by means of the tax deductions for depreciation expense. Since it will be many years before the Company will recover the tax in full, the CPUC has mandated that the Company charge the customer the present value of the stream of carrying costs associated with the yet-to-be recovered portion of the income tax. The present value discount rate and the carrying charge rate, referenced above, used in the computation are as published for statewide use by the CPUC.

B. DETERMINATION OF ECONOMIC CARRYING CHARGE

1. The Economic Carrying Charge shall be calculated by multiplying the balance of the contribution by the tax factor. The tax factor to be applied to the balance of the contribution is (a) 28 percent through and including February 29, 2008; and (b) 20 percent on and after March 1, 2008. The Company will file by advice letter any changes in the tax factor which would cause an increase or decrease in the Economic Carrying Charge of five percentage points or more.
2. The tax factor is established by using Method 5 as set forth in Decision No. 87-09-026.

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS

A. PURPOSE

The purpose of the PPP Balancing Accounts is to balance the actual cost incurred by the Company in providing public purpose programs such as low-income assistance, energy efficiency, and public interest research and development with PPP Surcharge revenue collected to recover public purpose program costs.

1. PPP SURCHARGE REFUNDS

Per Decision (D.) 04-08-010, to prevent the issuance of duplicate refunds of PPP surcharge collection, the utility shall inform the State Board of Equalization (BOE) of any PPP surcharge refunds it intends to issue. The refunds will not be issued if previously made by the BOE. The utilities shall inform the BOE of any refunds that they issue. The utility will annually review its customer accounts to determine if any refunds are warranted.

2. STATE BOARD OF EQUALIZATION REMITTANCES

Per Public Utilities Code Sections 892 and 892.1, the utility remits revenues collected from the PPP Surcharge to the State Board of Equalization on a quarterly basis.

3. DISTRIBUTION AND TREATMENT OF AMOUNTS RECEIVED FROM THE GAS CONSUMPTION SURCHARGE FUND

Per D. 04-08-010, all funds remitted to the BOE are to be returned to the utility in a timely manner, except for Research and Development (R&D) funds (excluding R&D funds to reimburse the utility for R&D activities conducted in 2004), the BOE and Commission administration costs, and deductions for any refunds issued by the BOE. Non-exempt interstate pipeline customer remittances to BOE are to be returned to the public utility in whose service territory the customer resides. All amounts received from the Gas Surcharge Consumption Fund are to be recorded to the appropriate PPP balancing accounts.

4. TREATMENT OF FRANCHISE AND UNCOLLECTIBLES (F&U)

Per D. 04-08-010, F&U shall not be included in the calculation of the PPP Surcharge and the utility shall exclude PPP Surcharge amounts in determining franchise payments.

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*A. PURPOSE *(Continued)*

5. PPP SURCHARGE RATE CALCULATION

The PPP Surcharge shall be calculated in accordance to formulas and throughput volumes specified in D.04-08-010.

B. APPLICABILITY

The PPP Balancing Accounts apply, as appropriate, to all sales and transportation service in the Company's Southern and Northern California Divisions as set forth in Schedule No. PPS-292 of this California — South Lake Tahoe Gas Tariff.

C. REVISION DATE

D. 04-08-010 requires the Company to file an advice letter with the proposed PPP Surcharges by October 31 of each year, with a requested effective date of January 1 of the following year. The Company may file at other times if failure to make the rate change would result in a forecasted total rate increase of ten percent (10%) or more on January 1 of the following year, as provided for in D. 04-08-010.

D. LOW INCOME ENERGY EFFICIENCY BALANCING ACCOUNT (LIEEBA)

1. PURPOSE

The purpose of the LIEEBA is to balance the Company's Commission-authorized LIEE program costs, including outreach, administrative, and program audit costs, with the PPP Surcharge revenue that recovers these costs. The LIEEBA is a one-way balancing account. Any actual program costs in excess of amounts authorized by the Commission are not recoverable.

If the LIEE portion of PPP Surcharge revenue amounts recorded in the LIEEBA exceed the authorized program costs expended, the difference is carried forward to supplement the subsequent year's program. The difference will not be used to reduce the LIEE portion of the PPP Surcharge for the subsequent year's program unless authorized by the Commission. Customer refunds will only occur when the Commission authorizes such.

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*D. LOW INCOME ENERGY EFFICIENCY BALANCING ACCOUNT (LIEEBA) *(Cont.)*

2. LIEEBA ADJUSTMENT

If amounts collected in the LIEEBA are less than the authorized program costs expended, the balance in the LIEEBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based on the most recently available billed gas volumes. The LIEEBA will be amortized into rates in accordance with Section No. 10C of these Preliminary Statements. The current LIEEBA Adjustment rate is a component of the PPP Surcharge set forth in the currently effective Statement of Rates and Schedule No. PPPS-292 of this California — South Lake Tahoe Gas Tariff.

3. ACCOUNTING PROCEDURE

The Company shall make the following entries to the LIEEBA:

- a. On a monthly basis, a debit entry equal to the Company's actual Commission-authorized LIEE program costs, including outreach, administrative, and program audit costs;
- b. On a monthly basis, a credit entry equal to the revenue collected through the LIEE component, including the LIEEBA Adjustment, of the Company's PPP Surcharge;
- c. An entry to reflect any difference between the payments of the LIEE portion of the PPP Surcharge collected by the Company and remitted to the BOE, and the funding obtained from the Gas Consumption Surcharge Fund for such program costs; and
- d. For amounts held on account by the Company, a monthly entry to record interest on the account. The Interest Rate shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3 months) published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (prime, 3 months) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the rate that was discontinued, and which is published in the Federal

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*D. LOW INCOME ENERGY EFFICIENCY BALANCING ACCOUNT (LIEEBA) *(Cont.)*3. ACCOUNTING PROCEDURE *(Continued)*

Reserve Statistical Release, G.13, or its successor publication. Interest will accrue to the Balancing Account by applying the Interest Rate to the average of the beginning and ending balances. While LIEE surcharge collections are in the possession of the State, the applicable interest is the actual amount of interest that accrued while the remittances were on deposit in the Fund.

E. CALIFORNIA ALTERNATE RATES FOR ENERGY BALANCING ACCOUNT (CAREBA)

1. PURPOSE

The purpose of the CAREBA is to balance the Company's CARE program costs, including rate discounts, outreach, administrative, and program audit costs, with the PPP Surcharge revenue that recovers these costs. The CAREBA is a two-way balancing account.

2. CAREBA ADJUSTMENT

The balance in the CAREBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based upon the most recently available billed gas volumes. The CAREBA will be amortized into rates in accordance with Section No. 10C of these Preliminary Statements. The current CAREBA Adjustment rate is a component of the non-CARE PPP Surcharge set forth in the currently-effective Statement of Rates and Schedule No. PPS-292 of this California — South Lake Tahoe Gas Tariff.

3. ACCOUNTING PROCEDURE

The Company shall make the following entries to the CAREBA:

- a. On a monthly basis, a debit entry equal to actual amount of CARE program costs, including rate discounts, outreach, administrative, and program audit costs;
- b. On a monthly basis, a credit entry equal to the revenue collected through the CARE component, including the CAREBA Adjustment, of the Company's PPP Surcharge;

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*E. CALIFORNIA ALTERNATE RATES FOR ENERGY BALANCING ACCOUNT (CAREBA) *(Continued)*3. ACCOUNTING PROCEDURE *(Continued)*

- c. An entry to reflect any difference between the payments of the CARE portion of the PPP Surcharge collected by the Company and remitted to the BOE, and the funding obtained from the Gas Consumption Surcharge Fund for such program costs; and
- d. For amounts held on account by the Company, a monthly entry to record interest on the account. The Interest Rate shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3 months) published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (prime, 3 months) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the rate that was discontinued, and which is published in the Federal Reserve Statistical Release, G.13, or its successor publication. Interest will accrue to the Balancing Account by applying the Interest Rate to the average of the beginning and ending balances. While CARE surcharge collections are in the possession of the State, the applicable interest is the actual amount of interest that accrued while the remittances were on deposit in the Fund.

F. PUBLIC INTEREST RESEARCH AND DEVELOPMENT BALANCING ACCOUNT (R&DBA)

1. PURPOSE

The purpose of the R&DBA is to balance the Company's allocated share of the State's annual R&D budgeted costs, including any Commission and BOE administrative costs, with the PPP Surcharge revenue that recovers these costs. The R&DBA is a two-way balancing account. The payments of the R&D portion of the PPP Surcharge collected by the Company and remitted to the BOE will be distributed to the R&D project administrator to cover R&D project costs.

PRELIMINARY STATEMENTS*(Continued)*10. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*F. PUBLIC INTEREST RESEARCH AND DEVELOPMENT BALANCING ACCOUNT (R&DBA) *(Continued)*

2. R&DBA ADJUSTMENT

The balance in the R&DBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based upon the most recently available billed gas volumes. The R&DBA will be amortized into rates in accordance with Section No. 10C of these Preliminary Statements. The current R&DBA Adjustment rate is a component of the PPP Surcharge set forth in the currently-effective Statement of Rates and Schedule No. PPPS-292 of this California — South Lake Tahoe Gas Tariff.

3. ACCOUNTING PROCEDURE

The Company shall make the following entries to the R&DBA:

- a. On a monthly basis, a debit entry equal to the share of the State's annual R&D budgeted costs, including any CPUC and BOE administrative costs allocated to the Company, if any;
- b. On a monthly basis, a credit entry equal to the revenue collected through the R&D component, including the R&DBA Adjustment, of the Company's PPP Surcharge. Such amounts collected will be remitted to the State Board of Equalization on a quarterly basis;
- c. For amounts held on account by the Company during the period when revenue is collected from the PPP Surcharge until those amounts are submitted to the BOE, a monthly entry to record interest on the account calculated as set forth in Section No. 12B of these Preliminary Statements;
- d. The disposition of the interest held by the Company will be determined by the CPUC.

PRELIMINARY STATEMENTS*(Continued)*11. CALIFORNIA PUBLIC UTILITIES COMMISSION MOBILEHOME PARK GAS SAFETY INSPECTION AND ENFORCEMENT PROGRAM SURCHARGE

A. Purpose

The purpose of this provision is to set forth the Public Utilities Commission surcharge to be paid by Mobilehome Park Operators to fund a safety inspection and enforcement program (Public Utilities Code, Sections 4351 - 4360). The surcharge, to recover the cost of the program is ordered by the Commission under the authority granted by Public Utility Code Sections 4358 and 4359.

B. Applicability

This surcharge applies to all mobilehome parks receiving service under Rate Schedules GST-223 and GMT-224. It is applicable within the entire territory served by the Company.

C. Rate

The current surcharge is set forth in the currently-effective Statement of Rates of this California — South Lake Tahoe Gas Tariff.

12. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA)

A. Purpose

The purpose of the CEMA is to recover the costs associated with the restoration of service and the Company'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 Company will inform the Executive Director of CPUC by letter within 30 days after the catastrophic event that the Company has started booking costs in the CEMA.

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

PRELIMINARY STATEMENTS*(Continued)*12. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA) *(Continued)*A. Purpose *(Continued)*

The Company 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 Government Code Sections 8558, 8588, and 8625 or comparable federal authority.

B. Applicability

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

C. CEMA Rates

The CEMA does not currently have a rate component.

D. Accounting Procedure

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

1. A debit entry equal to the amounts recorded in the Company's Operation and Maintenance, and Administrative and General Expense Accounts that were incurred as a result of the disaster and related events.
2. A debit entry equal to:
 - a. 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 the annual depreciation rates approved by the CPUC for these plant accounts; plus
 - b. 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 or 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 by the CPUC; plus

PRELIMINARY STATEMENTS*(Continued)*12. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA) *(Continued)*D. Accounting Procedure *(Continued)*

- c. the return on the appropriate allowance for working capital using calculations last adopted by the CPUC and the return in 13.D.2.b above; plus
 - d. the return on the net cost of removal of facilities required as a result of the disaster and related events, using the rate of return in 13.D.2.b above; less
 - e. the return on the average of the 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 13.D.2.b above.
3. A debit entry equal to federal and state taxes based on income associated with item 13.D.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 requirement as applicable. Interest cost will be at the percentage of net investment last adopted by the CPUC with respect to the Company.
4. 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.
5. 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 13.D.1 through 13.D.3 above, at a rate equal to one-twelfth the interest rate plus 50 basis points on three-month Commercial Paper for the previous month as published in the Federal Reserve Statistical Release G.13, or its successor.

Entries in items 13.D.1 and 13.D.2 above shall be made net of the appropriate insurance proceeds.

E. Financial Reporting

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