

SOUTHWEST GAS TRANSMISSION COMPANY, A LIMITED PARTNERSHIP

COMPLIANCE PROCEDURES IMPLEMENTING THE FEDERAL ENERGY REGULATORY COMMISSION'S STANDARDS OF CONDUCT

In accordance with Order No. 2004 *et al.*, establishing revised Standards of Conduct for Transmission Providers, 18 C.F.R. § 358.4(e)(3), and the Commission's September 20, 2004 order, *Alcoa Power Generating Inc.*, 108 FERC ¶ 61,243 ("Omnibus Waiver Order") granting Southwest Gas Transmission Company, A Limited Partnership ("SGTC") a partial waiver of the Standards of Conduct requirements, SGTC is posting these written implementation procedures for compliance with the new Standards of Conduct ("Compliance Procedures"). As suggested in the Omnibus Waiver Order, SGTC has posted the SGTC Compliance Procedures on Southwest Gas Corporation's (Southwest) Internet website.

For information about SGTC's Compliance Procedures, you should contact SGTC's Chief Compliance Officer, Mark Litwin. The Chief Compliance Officer is responsible for (1) overseeing the training of employees regarding the Federal Energy Regulatory Commission's Standard of Conduct requirements of 18 C.F.R. Part 358, (2) ensuring compliance with all posting requirements of the Part 358 regulations, (3) providing guidance to employees on compliance questions as they arise, and (4) responding to general inquiries regarding SGTC's compliance from third parties. Mr. Litwin's contact information is:

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I. Background

On November 25, 2003, the Federal Energy Regulatory Commission ("FERC") issued Order No. 2004, which promulgated revised regulations that require all Transmission Providers, as defined by the Order, to file and post on their OASIS or Internet Websites by February 9, 2004, a compliance plan and implementation schedule. SGTC submitted a request for exemption on February 9, 2004 in lieu of a plan and implementation schedule.

The revised Standards of Conduct were further modified and clarified in Order No. 2004-A, issued on April 16, 2004, and Order No. 2004-B, issued on August 2, 2004. Among other things, the Commission postponed the compliance date until September 22, 2004. Pursuant to the Omnibus Order, SGTC's Compliance Procedures must be posted by October 20, 2004.

SGTC's exact legal name is Southwest Gas Transmission Company, A Limited Partnership. SGTC's principal place of business is 5241 Spring Mountain Road, Las Vegas, Nevada. SGTC is an Arizona limited partnership comprised of Southwest, as general partner, and Utility Financial Corp., as limited partner.

The limited partner, Utility Financial Corp., is a Nevada corporation engaged in nonjurisdictional business enterprises. Utility Financial Corp. is a subsidiary of Southwest. The general partner, Southwest, is a California corporation engaged in the local distribution and retail transportation of natural gas in the States of Arizona, California, and Nevada. Southwest's operations in each of these three state jurisdictions are explained more fully below.

Arizona

Southwest sells and transports natural gas in most of southern, central, and northwestern Arizona, including the Phoenix and Tucson metropolitan areas. For these Arizona retail systems, Southwest receives gas through the interstate pipeline operated by El Paso Natural Gas Company (“El Paso”) and, for a discrete distribution system in northwestern Arizona, through Transwestern Pipeline Company (“Transwestern”).

California

Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area in northern California and in San Bernardino County in southern California. Southwest’s northern California system is served indirectly by Northwest Pipeline Corporation (“Northwest”) and Tuscarora Gas Transmission Company (“Tuscarora”), and directly by Paiute Pipeline Company (“Paiute”), a wholly-owned subsidiary of Southwest. Southwest receives gas in southern California through Southern California Gas Company.

Nevada

Southwest sells and transports gas in southern Nevada, the Las Vegas metropolitan area, and in various northern Nevada service areas. Southwest receives gas for its southern Nevada distribution system through El Paso and Kern River Gas Transmission Company, as well as through SGTC’s small interstate pipeline system, which serves as a conduit for deliveries from El Paso and Transwestern to Southwest. For its northern Nevada distribution systems, Southwest receives gas indirectly through Northwest and Tuscarora, each of which delivers to Southwest through Paiute.

SGTC’s Operations

As SGTC explained in SGTC’s February 9th Request for Exemption, SGTC is a Transmission Provider, as defined by 18 C.F.R. § 358.3(a), with no Energy or Marketing Affiliates, as defined by 18 C.F.R. § 358.3(d) and (e). SGTC holds a case-specific certificate of public convenience and necessity under Part 157 of the Commission’s regulations to own and operate eight miles of 20-inch diameter pipeline. See Southwest Gas Transmission Co., 91 FERC ¶ 61,007, at p. 61,032 (2000). SGTC’s small pipeline serves as a conduit between the upstream interstate pipelines of El Paso and Transwestern in the State of Arizona and Southwest’s retail local distribution system in southern Nevada. As the Commission recognized when it certificated this arrangement:

- “SGTC has no compression and virtually no line pack and...act[s] simply as a conduit for deliveries from El Paso and Transwestern to Southwest.” Id., at p. 61,035.
- “SGTC is a very small pipeline planned to serve a single affiliated customer.” Id.
- “[A]ll of SGTC’s firm capacity is committed to Southwest under a cost of service contract.” Id.
- SGTC has no sales or marketing function. Id.
- SGTC has no full time employees. Id.
- SGTC does not, and has not been required to, maintain an Internet website in accordance with 18 C.F.R. §§ 284.12 and 284.13. Id.

II. Overview of this Posting

This posting includes the following:

- (1) the written compliance procedures, including Background and Summary of Compliance/Implementation Procedures;
- (2) certification of the Chief Compliance Officer; and
- (3) organization chart and related information required for initial posting.

III. Summary of SGTC’s Compliance/Implementation Procedures

SGTC has no sales or marketing employees, nor any Energy Affiliates, and, therefore, it is exempt from the independent function requirements of 18 C.F.R. § 358.4(a). Nevertheless, as a Transmission Provider, absent waiver, certain other Part 358 requirements would apply. SGTC sought waiver of all applicable Standards of Conduct requirements in its February 9, 2004 Request for Exemption. In its September 20, 2004 Omnibus Waiver Order the Commission waived the obligation for SGTC to comply with:

(1) the independent functioning requirements of § 358.4(a), and

(2) the information disclosure prohibitions of sections 358.5(a)(1) and (2), and (b)(1), (2), and (3) with respect to its affiliated LDC.

As discussed below, these compliance implementation procedures address the remaining Standards of Conduct requirements, which comprise § 358.4(b)-(e) and § 358.5(b)(4)-(8), (c), and (d).

A. Implementation.

1. Implementation plan and schedule due February 9, 2004.

SGTC has met the February 9, 2004 requirement by filing its Request for Exemption on February 9, 2004, and complying with the posting deadline established for SGTC by the Omnibus Waiver Order.

2. Implementation posting.

This posting satisfies the requirement that SGTC post on its Internet site its current written procedures implementing the Standards of Conduct regulations and that such Compliance Procedures be in sufficient detail so as to enable its customers and the Commission to determine whether SGTC is/will be in compliance. See 18 C.F.R. § 358.4(e)(3).

3. Distribution of procedures.

SGTC is responsible for distributing its Compliance Procedures to all SGTC employees, as defined by the regulations. See 18 C.F.R. § 358.4 (e)(4). SGTC currently has no employees of its own. All SGTC-related work is performed by Southwest employees on behalf of SGTC. SGTC has distributed these Compliance Procedures to those Southwest employees that perform a SGTC-related transmission function (excluding Southwest support employees, such as clerical, maintenance and field workers).

4. Books and Records.

SGTC currently maintains separate books and records, which are available for Commission inspection, and are in compliance with parts 101, 125, 201, and 225 of the regulations. See 18 C.F.R. § 358.4(d).

5. Compliance posting of organizations charts.

In compliance with 18 C.F.R. § 358.4(b)(3), this posting includes comprehensive organizational charts that show:

- (1) Southwest's organizational structure, including SGTC's relative position in the corporate structure;

- (2) SGTC's business units, job titles and descriptions (including employee titles, employee duties, whether the employee is involved in transmission or not – SGTC makes no sales), names of supervisory employees who manage non-clerical employees involved in transmission or sales, and chain of command for all positions (including directors and officers, but not including clerical, maintenance, and field positions). SGTC has included within the scope of those employees identified on the organizational chart Southwest employees that perform a SGTC-related transmission function;
- (3) SGTC has neither a marketing or sales function nor a Marketing or Energy Affiliate. SGTC has included in its organizational chart information about those Southwest employees that perform transmission function activity. See section (2) above.

6. Training and certification.

A Transmission Provider must require that all of its officers and directors, as well as employees with access to transmission information or information concerning gas or electric purchases, sales or marketing functions, receive training and sign a document stating (or certifying electronically) that they have been trained. See 18 C.F.R. § 358.4(e)(5). In compliance with this requirement, SGTC has circulated training materials to all employees to which this requirement applies, and has conducted in-person training of employees as necessary. In addition, SGTC has created an internal procedure for compliance questions to be directed to the Chief Compliance Officer as they arise.

B. Posting Requirements.

Effective October 20, 2004, and on a continuing basis, the following information will be posted on Southwest's website.

1. Compliance Procedures.

SGTC has posted its Compliance Procedures as required by 18 C.F.R. § 358.4(e)(3) (see Part III.A.2.supra), which includes the organizational charts and other information required by 18 C.F.R. § 358.4(b)(3) (see Part III.A.5 supra).

2. Discretionary Tariff Log.

Transmission Providers must maintain a log detailing all circumstances and the manner in which they exercise discretion under any terms of their tariffs. Information must be added and posted on the Internet site within 24 hours of when the Transmission Provider exercises discretion. See 18 C.F.R. § 358.5(c)(4). SGTC's tariff is a Volume No. 2 type tariff and consists primarily of the Gas Transportation Agreement with Southwest. It is unclear whether there are any circumstances under which SGTC would exercise discretionary tariff actions. Nonetheless, SGTC has established a log of discretionary tariff actions, which will be posted within 24 hours of the time SGTC takes the relevant action. With respect to this posting requirement, SGTC will not duplicate postings where, for example, SGTC may already be required to post the information in order to comply with other regulatory requirements. In addition, SGTC's posting will not include confidential or commercially sensitive information, which is consistent with SGTC's compliance obligations.

3. Discounts.

SGTC must post any offer of a discount for any transmission service on its Internet site contemporaneous with the time the offer is contractually binding. The posting must remain on the site for 60 days from the date of posting. See 18 C.F.R. § 358.5(d). As a Part 157 transporter, SGTC currently may not provide rate discounts. In compliance, however, SGTC has implemented discount posting procedures. SGTC's discount posting under this section will include:

- (1) name of customer involved in the discount;
- (2) whether the customer is an affiliate;
- (3) whether any affiliate is involved in the transaction;
- (4) the rate offered;
- (5) the maximum rate;
- (6) time period for which the discount will apply;
- (7) quantity of power or gas scheduled to be moved;
- (8) delivery points under the transaction; and
- (9) any conditions or requirements applicable to the discount. Id.

4. Information updates

Posted information must be updated within seven business days of any change; postings should include the date on which information is updated. See 18 C.F.R. § 358.4(b)(iv). SGTC has implemented procedures to require updates to its Internet site for Standards of Conduct information to be posted within seven business days of any change in the information with the date of the update included in the posting.

5. Potential mergers.

Information concerning potential merger partners as affiliates must be posted within seven days after the potential merger is announced. See 18 C.F.R. § 385.4(b)(v). SGTC has implemented procedures to post merger announcements within seven days of the public announcement of the merger.

6. Coordination with other posting requirements.

Transmission Providers that are interstate pipelines must ensure that all postings under the new affiliate regulation comply with the requirements of 18 C.F.R. § 284.12 (a) (Incorporation by Reference of NAESB Standards) and 18 C.F.R. § 284.12(b)(3)(v) (archiving requirement for electronically provided information). See 18 C.F.R. § 358.4 (b)(vi). The requirements of 18 C.F.R. § 284.12 (a) do not apply to SGTC, because SGTC does not currently transport gas pursuant to 18 C.F.R. Part 284, Subparts B or G. SGTC has taken steps to ensure that its Part 358 Internet postings comply with the requirements of § 284.12 (b)(3)(v) to the extent applicable.

7. Training.

The Chief Compliance Officer has conducted training that satisfies the requirements of 18 C.F.R. § 358.4(e)(5), and, as discussed herein, has initiated an ongoing training program to ensure ongoing compliance with the spirit and the letter of the new Standards of Conduct.

8. Other posting requirements.

The Omnibus Waiver Order did not waive SGTC's obligation to meet several posting requirements that only apply to Transmission Providers with Marketing or Energy Affiliates. These are:

- (1) names and addresses of affiliates (§ 358.4(b)(1)),
- (2) shared facilities (§ 358.4(b)(2)),
- (3) transfers of employees between Transmission Provider and a Marketing or Energy Affiliate (§ 358.4(c)),
- (4) posting of consensual disclosures (§ 358.5(b)(4)), and
- (5) sharing of generation dispatch information (§ 358.5(b)(6)).

SGTC has included tabs on its posting for items (1) through (4) above, but they presently do not apply because SGTC has no Marketing or Energy Affiliates. Item (5) does not currently apply to SGTC.

C. Substantive Compliance Obligations.

The regulations institute four continuing non-discrimination obligations, with which SGTC will comply to the extent applicable. Because SGTC currently operates pursuant to a case-specific Part 157 certificate and transports for only one firm shipper, Southwest, certain of the following requirements may not currently apply.

1. Strict enforcement of nondiscretionary tariff provisions.

SGTC will strictly enforce all nondiscretionary tariff provisions relating to the sale or purchase of open access transmission service. See 18 C.F.R. § 358.5(c)(1). SGTC currently has no open access transmission tariff provisions.

2. Nondiscriminatory application of discretionary tariff provisions.

A Transmission Provider must apply all tariff provisions that permit the use of discretion and pertain to the sale or purchase of open-access transmission service in a fair and impartial manner. With respect to such tariff provisions, all transmission customers must be treated in a nondiscriminatory manner. See 18 C.F.R. § 358.5 (c)(2). SGTC currently has no open access transmission tariff provisions.

3. Nondiscrimination in processing of transmission requests.

SGTC will process all similar requests for transmission in the same manner and in the same period of time. See 18 C.F.R. § 358.5(c)(3).

4. Prohibition against giving preference to affiliates.

A Transmission Provider must ensure that it does not give a preference to its Marketing or Energy Affiliate over any other wholesale customer in matters relating to the sale or purchase of transmission service (including, but not limited to, issues of price, curtailment, scheduling, priority, ancillary services, or balancing). See 18 C.F.R. § 358.5(c)(5). SGTC has no Marketing or Energy Affiliates and, therefore, this requirement is not applicable.

5. Other compliance requirements.

The Commission did not expressly waive § 358.5(b)(7), which reflects the no-conduit prohibition. However, the Commission waived § 358.5(b)(1)-(2), and SGTC has no Marketing or Energy Affiliates, and, therefore, the no-conduit rule does not apply to SGTC.

The Commission also did not waive § 358.5(b)(8), regarding sharing of operational maintenance

information between a Transmission Provider and its Energy Affiliates. SGTC has no Energy Affiliates so this requirement also does not currently apply to SGTC.

IV. Southwest's Status as an Exempt Local Distribution Company

Southwest is a state-regulated local distribution company that is exempt from the definition of Energy Affiliate. As a result, SGTC has neither any Marketing Affiliates, nor any Energy Affiliates.

V. Reservation of Rights

These compliance efforts are taken without any waiver of SGTC's rights, present or future, regarding any Commission regulation, policy, or precedent in existence now or in the future.

CERTIFICATION OF CHIEF COMPLIANCE OFFICER

I, Mark Litwin, am the duly authorized employee charged with the responsibility of serving as Chief Compliance Officer for Southwest Gas Transmission Company, A Limited Partnership, regarding the Standards of Conduct set forth at 18 C.F.R. Part 358. Based upon information, knowledge and belief, I hereby certify that I have reviewed these Compliance Procedures and believe the factual statements contained therein to be true and correct as of the date of this certification.

/s/

Mark Litwin

Certification Date: October 20, 2004

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