BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southwest Gas Corporation (U 905 G) for Authority to Revise its California Gas Tariff to Modify the Gas Cost Incentive Mechanism, Implement a Biomethane Gas Program, and Modify Transportation Customer Balancing Requirements and Operational Flow Orders.	Application 19-02-___ (Filed February 1, 2019)

APPLICATION OF SOUTHWEST GAS CORPORATION (U 905 G)

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February 1, 2019

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Application of Southwest Gas Corporation (U 905 G) for Authority to Revise its California Gas Tariff to Modify the Gas Cost Incentive Mechanism, Implement a Biomethane Gas Program, and Modify Transportation Customer Balancing Requirements and Operational Flow Orders.	Application 19-02-___ (Filed February 1, 2019)

APPLICATION OF SOUTHWEST GAS CORPORATION (U 905 G)

1. Introduction

1.1 Southwest Gas Corporation (Southwest Gas or Company) respectfully submits to the California Public Utilities Commission (Commission) its Application for Authority to Revise its California Gas Tariff (Tariff) to Modify the Gas Cost Incentive Mechanism (GCIM), Implement a Biomethane Gas Program (BGP) and Modify Transportation Customer Balancing Requirements and Operational Flow Order Provisions (Application).

1.2 This Application is based upon and supported by the material facts, points and authorities, and all other information contained herein, the statements, schedules and other exhibits attached hereto, and the supporting Prepared Direct Testimony of Company witness John R. Olenick.

1.3 Southwest Gas is a public utility engaged in the retail distribution, transportation and sale of natural gas for domestic, commercial, agricultural and industrial uses. Southwest Gas has operations in California, Arizona and Nevada, and currently serves approximately 195,000 customers in California.

1.4 As discussed in further detail below, Southwest Gas seeks three (3) separate changes to its Tariff. The first is a modification to the GCIM provisions found in Preliminary

Statement 17, to codify in the Tariff the temporary changes to the mechanism that were approved by the Energy Division in October 2016. The second change is the implementation of a new provision in Preliminary Statement 17, for a biomethane gas program – the BGP. The proposed BGP is designed to address the costs and revenues associated with the Company's purchase of biomethane gas through the GCIM in a manner similar to the Company's Volatility Mitigation Program (VMP), which is already part of the Commission-approved GCIM. The third change involves modification to Tariff Rule No. 21 – *Transportation of Customer-Secured Natural Gas* (Rule No. 21). The proposed changes to Rule No. 21 will more closely align the balancing requirements for the Company's transportation customers with the balancing requirements that the Company is subject to as a wholesale customer of Southern California Gas Company (SoCalGas), through the implementation of daily balancing requirements and authority for Southwest Gas to institute operational flow orders (OFO) under certain conditions. Southwest Gas believes each of these Tariff revisions is in the public interest and affords the Company the continued ability to provide safe and reliable natural gas service to its California customers.

1.5 Attached hereto as **Exhibit A** are proposed Tariff sheets that reflect the changes proposed in this Application.

1.6 Customer rates will not change as a result of this Application. The Application proposes only to revise the Company's Tariff.

2. GCIM Modifications

2.1 On March 23, 2016, Southwest Gas submitted Advice Letter (AL) No. 1006, requesting three changes to the GCIM provision found in Preliminary Statement 17 of its Tariff. The GCIM is a Commission-approved, objective standard by which Southwest Gas' gas procurement performance is measured. The GCIM provides an incentive to lower overall gas costs, and a mechanism for sharing the achieved benefits between the Company and its customers.

2.2 First, the Company sought to the modify the calculation of the Southern California Benchmark Price Index for gas purchases made for less than an entire month to be based on daily index pricing, as opposed to monthly index pricing. This modification was intended to address a deficiency in the Company's GCIM provision where purchases of gas on the daily market are measured against monthly price indices, thereby resulting in an inappropriate comparison because of the price differences between daily and monthly gas markets. Accordingly, the first modification proposed by the Company allowed for the appropriate evaluation of the Company's natural gas purchases (i.e. daily purchases v. daily indices, monthly purchases v. monthly indices).

2.3 As described in AL 1006, and in Mr. Olenick's Prepared Direct Testimony, the GCIM's current failure to compare daily purchases to daily indices needs to be corrected for the GCIM to appropriately contemplate all scenarios related to the Company's natural gas procurement performance. This need was exacerbated by recent events outside of the Company's control – SoCalGas' implementation of tariff changes permitting high and low OFOs and Emergency Flow Orders (EFO) and concerns over the availability of SoCalGas' Aliso Canyon underground storage facility. These events affect the California and western U.S. gas markets in a manner that was not contemplated when Southwest Gas' GCIM was initially developed and approved in 2005, and highlight the need for the additional flexibility in the GCIM that the Company requests herein.

2.4 Second, Southwest Gas proposed language requiring that the Company include justification in its annual GCIM filing for any costs associated with an emergency that were excluded from GCIM Purchased Gas Costs and the GCIM Benchmark. This modification was necessary to clarify how the Company is to justify these exclusions, as there is no stated methodology in the current GCIM.

2.5 Third, Southwest Gas proposed an exclusion from the GCIM Purchased Gas Costs and the GCIM Benchmark of certain commodity, transportation, and storage costs incurred by the Company in response to SoCalGas' Operational or Emergency Flow Orders (OFOs and EFOs), reduced daily balancing windows, or non-performance of firm contracted resources.

2.6 On October 28, 2016, the Energy Division issued a disposition letter accepting the Company's requested GCIM modifications on a temporary basis through the GCIM year beginning November 1, 2016 extending through October 31, 2017. The temporary modifications were extended for another year in the Energy Division's disposition of Advice Letter No. 1048 in October 2017 and again in October 2018 through Advice Letter No. 1081.

2.7 As discussed in Mr. Olenick's Prepared Direct Testimony, the conditions that precipitated the Company's requested GCIM changes continue to exist today. Further, the Company has utilized the temporary modifications in its past two GCIM submissions, and both resulted in shared savings for the Company and its customers. Southwest Gas therefore seeks to incorporate these previously approved temporary changes into Preliminary Statement 17 of its Tariff.

3. New BGP Provision

3.1 The Company's proposed BGP is designed to assist in identifying and securing gas supply or sales contracts that further the goals of: the California Global Warming Solutions Act of 2006, as amended; the California Low Carbon Fuel Standard (California Code of Regulations §95480 through §95497); Senate Bill (SB) 1383 Short-lived climate pollutants; SB 1440 Biomethane Procurement, or other current or future legislative or regulatory efforts to reduce greenhouse gas emissions.

3.2 Although the Company's Tariff addresses cost recovery for the interconnection of facilities with biomethane production facilities, it is currently silent on the treatment of costs associated with the purchase or sale of biomethane. Consequently, Southwest Gas proposes changes to its GCIM (in the form of the BGP) to incorporate a method to include purchase costs and sales revenue associated with biomethane generated from biomethane projects.

3.3 The BGP provides a high-level framework for the Company's biomethane purchases and sales activities, as well as a reporting requirement. As proposed, the BGP will be incorporated into the Company's GCIM and will essentially pass through to customers both the cost to purchase biomethane and any revenue generated by the off-system sale of biomethane, including any portion of the monetized value of the associated environmental credits that the Company may receive. This "pass through" of all costs and benefits to customers is accomplished by benchmarking any BGP purchases at the contract price for each purchase and benchmarking any BGP sales at the contract price for sale. Moreover, only biomethane purchases that meet one of the two factors outlined in SB 1440 will be permitted in the BGP.

3.4 The BGP is designed to function in a manner similar to the Company's VMP, which is already part of its GCIM. The VMP uses the same mechanism to "pass through" VMP gas purchase costs to the customers – i.e. it uses the contract price for a VMP purchase as the benchmark for that same VMP purchase. The additional aspect of the BGP is that an off-system sale of biomethane is also benchmarked at the contract price for that off-system sale, which is designed to pass all benefits (revenue) through to customers.

3.5 Because the Company's proposal will pass all BGP costs and revenues through to the customers in the same manner as the current VMP costs, it will be the Company's customers and not its shareholders that receive any incremental benefits from the BGP, including the environmental benefits associated with SB 1383, as well as any benefits the Company realizes from the potential off-system sale of biomethane and potential monetization of the associated environmental credits.

4. Rule No. 21 Modifications

4.1 Southwest Gas' Tariff Rule No. 21 outlines the interactions between the Company and its transportation customers – i.e., those customers on its system that secure their own gas supplies and deliver those supplies to Southwest Gas at one of the upstream interconnects between the Company's facilities and SoCalGas. Southwest Gas then takes possession of those gas supplies and redelivers them to the customers' facilities that interconnect with the Company's distribution system.

4.2 Currently, Rule No. 21 only requires transportation customers to balance with Southwest Gas on a monthly basis. The proposed modifications would require them to balance with Southwest Gas on both a daily and monthly basis and will permit the Company to institute OFOs. The addition of daily balancing and OFO requirements will more closely align the Company's tariff to the provisions contained in SoCalGas' tariff, which now contains both daily balancing provisions and OFO provisions that are applicable to Southwest Gas.

4.3 To implement daily balancing, Southwest Gas proposes allowing transportation customers a Daily Tolerance Band under which each customer's Daily Imbalance (defined as difference between the customer's daily transportation quantity scheduled for burn and the customer's daily metered quantity) may not be greater or less than the Daily Tolerance Band Percentage multiplied by the customer's daily transportation quantity scheduled for burn. If a customer's usage falls outside of the Daily Tolerance Band, it will be assessed a noncompliance charge on those quantities outside the Daily Tolerance Band.

4.4 On a normal day, the Daily Tolerance Band Percentage would be set at 25% and the noncompliance charge would be $0.00/Therm. However, under certain conditions, the Company could lower the Daily Tolerance Band Percentage, in a step wise manner, down to 0%. Likewise, as the Company lowers the Daily Tolerance Band Percentage, the potential noncompliance charge would increase.

4.5 The Company's proposed OFO provisions are a tool to require transportation customers to balance on a daily basis when the Company needs to protect system integrity, manage upstream resources, or insure that operational conditions on the Company's system comply with the upstream pipelines' operational conditions. The proposed daily balancing and OFO tariff provisions work hand in hand to help ensure that all customers receives a safe and reliable supply of natural gas and that there are no cross-subsidies between transportation customers and sales customers.

4.6 While the proposed revisions to Rule No. 21 will require transportation customers to balance with Southwest Gas on both a daily and monthly basis or be subject to noncompliance charges, the proposed changes will indirectly benefit the remainder of the Company's customers. Currently, Southwest Gas is subject to the daily balancing and OFO and EFO provisions contained in SoCalGas' tariff. The responsibility for any potential noncompliance charges from SoCalGas to Southwest Gas lies only with the customers that Southwest Gas procures supplies for. As such, Southwest Gas currently has no method for recovering any potential SoCalGas noncompliance charges from transportation customers, even if it can demonstrate that a transportation customer caused the charge. Thus, the Rule No. 21 modifications will enable Soutwhest Gas to better align who pays for noncompliance charges with the customer class that is creating the noncompliance charge. Southwest Gas' proposed modifications to Rule NO. 21 also help reduce the likelihood of Southwest Gas incurring a noncompliance charge from SoCalGas

5. Statutory and Procedural Requirements

5.1 Southwest Gas makes this Application pursuant to Sections 451, 489, 491, 701, 728 and 729 of the California Public Utilities Code, the Commission's Rules of Practice and Procedure (Rules), and all applicable Commission decisions, orders and resolutions.

Rule 2.1

Southwest Gas provides the following information related to the Application:

(a) The exact legal name of the Applicant is Southwest Gas Corporation. The location of Southwest Gas' principal place of business is 5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002, and the telephone number is (702) 876-7011. Southwest Gas is a corporation organized and existing under the laws of the state of California. The Company provides natural gas service as a public utility in southern and northern California and is subject to the Commission's jurisdiction. Southwest Gas is also engaged in the intrastate transmission, distribution and sale of natural gas as a public utility in certain portions of the states of Nevada and Arizona.

(b) Consistent with Rule 1.10, Southwest Gas agrees to accept electronic mail service of all notices, filings and submittals from the Commission and all parties granted leave to participate in this proceeding. Communications regarding this Application should be addressed to:

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(c) Pursuant to Rule 7.1(e)(2), Southwest Gas proposes that this matter be categorized as a "ratesetting" proceeding. The issue to be decided is whether the Company should be authorized to revise its Tariff as proposed in the Application. Southwest Gas does not expect there to be specific safety issues or considerations for the Commission to consider in this proceeding, as the Tariff revisions proposed in this Application relate primarily to gas procurement or scheduling. Southwest Gas believes that a hearing will only be necessary if any aspects of the Application are contested. Although the Company does not anticipate a protest, the proposed procedural schedule set forth below allows for a protest period. If no protests are filed within 30 days of the Application appearing on the Commission's Daily Calendar, Southwest Gas requests that the protest period and the dates for additional testimony, hearing and briefing, be eliminated from the proposed schedule.

Proposed Procedural Schedule:

January 31, 2019	Application filed
30 days after Daily Calendar	Deadline for Protests/Responses
10 days after Protests/Responses	Reply to Protests/Responses

April 1, 2019	Prehearing Conference
May 15, 2019	Intervenor Testimony
June 1, 2019	Rebuttal Testimony
Week of June 24, 2019	Evidentiary Hearing (1 day)
July 24, 2019	Opening Briefs
August 21, 2019	Reply Briefs
October 2019	Proposed Decision
November 2019	Final Decision

Rule 2.2

Southwest Gas' Articles of Incorporation with Statement of Conversion, dated January 4, 2017, were filed in A.18-02-008 and are incorporated herein by this reference.

Rule 3.2(a)

None of the Tariff revisions proposed by Southwest Gas in this Application will result in a rate increase. While the Company's GCIM mechanism ultimately results in a sharing of savings or costs between Southwest Gas and its customers, that analysis (and the corresponding rate adjustment) is the subject of Southwest Gas' Annual GCIM Report and appropriate Advice Letter filing. The GCIM modifications proposed herein, including the incorporation of the BGP will not, in and of themselves, result in a rate change. Similarly, while the Company's proposed changes to Rule No. 21 include noncompliance charges, those charges will only apply when transportation customers exceed the Daily Imbalance Tolerance Percentages proposed. The Tariff changes that Southwest Gas seeks in this Application will not pass through to customers only increased costs to Southwest Gas for services and commodities furnished by it.

. . .

Southwest Gas' Balance Sheet as of September 30, 2018, and the Statements of Income for three, nine, and twelve months then ended are attached hereto as **Exhibit B**.

6. Service of Application

6.1 In order to distribute this Application to potentially interested parties, Southwest Gas is serving this Application to the parties to the Company's Test Year 2014 General Rate Case (A.12-12-024), and Rulemaking 13-02-008.

7. Conclusion

WHEREFORE Southwest Gas respectfully requests that the Commission:

1) Authorize Southwest Gas to modify its California Gas Tariff as described herein; and

2) Grant such further relief as the Commission deems appropriate.

DATED this 1st day of February, 2019.

Respectfully submitted,
SOUTHWEST GAS CORPORATION

Catherine M. Mazzeo

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VERIFICATION

Justin Lee Brown, being first duly sworn, deposes and says: I am the Senior Vice President/General Counsel of Southwest Gas Corporation, and I am authorized to make this verification on its behalf. I have read the foregoing Application and the statements contained therein are true of my own knowledge, except those matters therein stated upon information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

Executed this 1st day of February 2019 in Las Vegas, Nevada.

Justin Lee Brown
Senior Vice President/General Counsel

EXHIBIT A

Preliminary Statement 17
Gas Cost Incentive Mechanism

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM)

17A. PURPOSE

The Gas Cost Incentive Mechanism (GCIM) provides objective standards to measure gas procurement performance, and a methodology to share annual savings and costs between the Company's shareholders and ratepayers. The annual GCIM period shall begin each November 1 and conclude the following October 31. The GCIM is calculated separately for the Company's California service areas.

The GCIM provides the Company with an incentive to achieve overall gas costs that are at or below the prevailing market prices. This is accomplished by establishing a quantity-weighted performance benchmark (GCIM Benchmark), T
which represents the gas market environment experienced during the annual GCIM period. Savings or costs resulting from differences between the Company's actual gas cost and the GCIM Benchmark are compared at the end of each annual GCIM period and are shared between the Company's customers and shareholders if the difference exceeds certain tolerance bands. The methodology used to calculate the sharing components of the GCIM is detailed in Section 17E of this Preliminary Statement.

17B. APPLICABILITY

The GCIM shall apply to all core customer classes in the Company's California service areas.

17C. GCIM BENCHMARK

The GCIM Benchmark is the sum of the Gas Commodity Benchmark and the Gas Transportation Benchmark. The GCIM Benchmark is compared to the actual GCIM Purchased Gas Costs at the end of the annual GCIM period to determine any shared savings or costs.

1. The Gas Commodity Benchmark establishes an objective basis for evaluating gas costs. The benchmark is quantity-weighted (by MMBtu) T
based on the trading point where the gas supplies are purchased. Quantities are included in the Gas Commodity Benchmark calculation T
during the period when the supplies are purchased.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17C. GCIM BENCHMARK *(Continued)*

The Gas Commodity Benchmark is determined by multiplying daily purchased quantities by the corresponding contract price or Benchmark Price Index. Which price is utilized is determined by whether the purchased quantities are: 1) made under the Volatility Mitigation Program (VMP); or 2) index priced or spot market purchases; or 3) Biomethane Gas Program (BGP). T T N N

If the purchased quantities were made under the VMP, then the corresponding contract price is used. If the purchased quantities were index priced or spot market purchases, then the corresponding Benchmark Price Index is used. If the purchased quantities is made under BGP, then the corresponding contract price is used. T T N N

Each day during the annual GCIM period, the quantity purchased under the VMP is multiplied by the respective contracted price corresponding to the specific VMP quantity purchased. The result of this calculation is the Daily VMP Benchmark Cost. T T

Each day during the annual GCIM period, the index priced and spot market purchased quantity is multiplied by the corresponding Benchmark Price Index. The result of this calculation is the Daily Index or Spot Market Purchase Benchmark Cost. T T

Each day during the annual GCIM period, the quantity purchased under the BGP is multiplied by the respective contracted price corresponding to the specific BGP quantity purchased. The result of this calculation is the Daily BGP Benchmark Cost. N

Each day during the annual GCIM period, the off-system quantity sold under the BGP is multiplied by the respective contracted sales price corresponding to the specific BGP quantity sold. The result of this calculation is the Daily BGP Benchmark Sales Revenue. N

The Gas Commodity Benchmark is the sum of the Daily VMP Benchmark Costs, the Daily Index or Spot Market Purchase Benchmark costs, the Daily BGP Benchmark Costs, and the Daily BGP Benchmark Sales Revenue for the entire annual GCIM period. N N

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PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17C. GCIM BENCHMARK *(Continued)*

For baseload purchases made for an entire month for the Southern California service area. The Southern California Benchmark Price Index is based on the simple average of first of the month prices reported in *Platts Inside FERC's Gas Market Report* for each of the indicated basin and border market trading points and the corresponding index prices from *Natural Gas Intelligence*. For purchases made for less than an entire month for the Southern California service area, the Southern California Benchmark Price Index is calculated daily and is based on the simple average of daily prices reported in Platt's Gas Daily for each of the indicated production and market center trading points and the corresponding index prices from SNL Energy Daily Gas Report. If one of the two publications used to calculate the simple average does not report an index price for a specific basin or market trading point, the other publication will be used. If neither publication used to calculate the simple average reports a price for an indicated basin or market trading point, the Benchmark Price Index will be based on another available trade publication. If the selected trade publication(s) subsequently revises its reported price within the annual GCIM period, the Benchmark Price Index will be recalculated to reflect the corrected price. N N/L L

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17C. GCIM BENCHMARK *(Continued)*

The Northern California and South Lake Tahoe Benchmark Price Index is calculated daily and is based on the simple average of daily prices reported in *Platt's Gas Daily* for each of the indicated production and market center trading points and the corresponding index prices from *SNL Energy Daily Gas Report*. If one of the two publications used to calculate the simple average does not report an index price for a specific production or market center trading point, the other publication will be used. If neither publication used to calculate the simple average reports a price for an indicated production or market center trading point, the Benchmark Price Index will be based on another available trade publication. If the selected trade publication subsequently revises its reported price within the annual GCIM period, the Benchmark Price Index will be recalculated to reflect the corrected price.

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2. The Gas Transportation Benchmark is the sum of all pipeline transportation costs for delivery of gas supply quantities to the Company's distribution system and all fixed and variable storage costs. T

   a. Pipeline transportation costs include fixed reservation charges, variable transportation costs, refunds, adjustments, credits, all applicable and effective surcharges and other related costs. The transportation costs are determined from the Company's transportation invoices, separately for each pipeline, for gas deliveries from the indicated basins/receipt points.

   b. Storage costs include injection, withdrawal, inventory charges, refunds, adjustments and credits as invoiced.

17D. GCIM PURCHASED GAS COST

The GCIM Purchased Gas Cost includes the following:

1. All gas commodity costs, including any adjustments, refunds, surcharges, penalties, inventory charges or credits;
2. Pipeline Transportation costs, including fixed reservation charges, variable transportation costs, refunds, adjustments, credits, all applicable and effective surcharges and other related costs included with the transportation invoices for deliveries to the Company's California service areas.
3. Storage costs including injection, withdrawal, and inventory charges and appropriate refunds, adjustments, and credits as invoiced;
4. Any revenues from release and brokering of pipeline or storage capacity;

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17D. GCIM PURCHASED GAS COST *(Continued)*

5. Any fees, charges or credits associated with the delivery of gas supplies through the Southern California Gas Company (SoCalGas) and Pacific Gas and Electric Company systems, including incremental costs for firm access rights if applicable;

6. Any gains, losses or expenses from gas futures and financial derivatives transactions, including but not limited to, forward contracts, futures, options, basis swaps, price swaps (including contracts for differences), and exchanges of futures for physical deliveries;

7. Any revenues from gas commodity sales (e.g. gas sales in the imbalance market, or other off-system sale);

8. Any revenues from the off-system sale of BGP, including the monetization of any biomethane gas environmental attributes, and N N

9. Any appropriate GCIM annual period adjustments. T

17E. ANNUAL SHARED SAVINGS/COST

Annual shared savings or costs are calculated when the GCIM Purchased Gas Costs are outside the tolerance bands. These are calculated as a percentage of the annual Gas Commodity Benchmark to create an "upper tolerance band" and "lower tolerance band." Costs above the upper tolerance band and savings below the lower tolerance band are shared between ratepayers and shareholders. No sharing occurs when GCIM Purchased Gas Costs are between the tolerance bands.

1. Determination of the Tolerance Bands

   a. The upper tolerance band is calculated as the GCIM Benchmark, plus 3 percent of the Gas Commodity Benchmark.

   b. The lower tolerance band is calculated as the GCIM Benchmark, minus 2 percent of the Gas Commodity Benchmark.

2. Calculation of Shared Savings and Costs

   a. On an annual basis, GCIM Purchased Gas Costs are compared to the GCIM Benchmark to determine if shared savings or costs exist.

   b. If GCIM Purchased Gas Costs are greater than the upper tolerance band, costs above the upper tolerance band are shared 50 percent to the ratepayers and 50 percent to the shareholders.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17E. ANNUAL SHARED SAVINGS/COST *(Continued)*

2. Calculation of Shared Savings and Costs *(Continued)*

c. If GCIM Purchased Gas Costs are less than the lower tolerance band, savings below the lower tolerance band are shared 75 percent to the ratepayers and 25 percent to the shareholders.

d. In no event shall the Company's portion of the annual shared savings or costs exceed 1.5 percent of the respective actual annual GCIM commodity costs for either of the Northern or Southern California Divisions.

e. In the event of an emergency (e.g. earthquake, pipeline failure, or other *force majeure* event), incremental costs and quantities associated with that event will be excluded from GCIM Purchased Gas Costs and the GCIM Benchmark for the purpose of calculating any shared savings or costs. These exclusions will be justified by the Company in its annual GCIM report submitted pursuant to Section 17J of this Preliminary Statement. T N N

f. Commodity, transportation, and storage costs incurred by the Company in response to SoCalGas Operational or Emergency Flow Orders, reduced daily balancing windows, non-performance of firm contracted resources such as storage and pipeline capacity, and daily balancing or other curtailment procedures, shall be excluded from GCIM Purchased Gas Costs and the GCIM Benchmark for the purpose of calculating any shared savings or costs. These exclusions will be justified by the Company in its annual GCIM report submitted pursuant to Section 17J of this Preliminary Statement. N N

17F. VOLATILITY MITIGATION PROGRAM (VMP)

The purpose of the VMP is to identify and secure contracts for natural gas supplies that contribute to the mitigation of short-term market price volatility. Pursuant to D.05-05-033, VMP purchase costs are flowed through the GCIM calculations and have no impact on any GCIM Shared Savings or Costs. This flow through is accomplished by calculating the Daily VMP Benchmark Cost for each VMP purchase by multiplying the daily VMP purchase quantities by the contract price corresponding to that specific VMP purchase quantity. T T

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PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17F. VOLATILITY MITIGATION PROGRAM (VMP) *(Continued)* T

VMP purchase prices are fixed when the contract is awarded, based on then current market conditions. Contracted supply terms can range from one to twelve months, but shall not exceed two years. The Company solicits VMP bids for both the Company's Southern California service area and the Company's Northern California and South Lake Tahoe service areas. Solicitations are scheduled periodically throughout the year. In any solicitation, one or both of the California divisions may be involved, depending on the amount of VMP supplies already acquired. Up to 25 percent of the total forecasted annual supply is purchased as part of the VMP. L

VMP contracts are awarded to the lowest acceptable bidder as part of a solicitation process. Because the contracts are selected through a bidding process, prices for VMP purchases are assumed to be representative of the market at the time of the solicitation. Evaluating these purchases will include comparing the awarded contract to the corresponding bids received during the solicitation process. All contracts and information related to the solicitation process will be submitted with the annual GCIM filing.

17G. SOUTHERN CALIFORNIA STORAGE

Consistent with D.08-12-020, the Company receives a set-aside of SoCalGas storage inventory, injection, and withdrawal capacity equal to 1.98 percent of the inventory, injection, and withdrawal capacities that are allocated to the combined core customers of SoCalGas and San Diego Gas & Electric Company. Such storage set-aside is adjusted annually, no later than April 1. N When this set-aside of SoCalGas storage is available, the Company uses its southern California storage resources primarily to reduce the impact of short-term or seasonal volatility in natural gas prices and as a peak demand supply source. To a lesser extent, storage is also employed as an imbalance management tool for intrastate capacity. The Company will endeavor to dispatch supplies into and out of storage in a manner that provides the greatest economic benefit to the ratepayers, based on market information available at that time and minimizes the purchase of supplies for periods less than an entire N month for the Southern California service area. Prior to each November 1, the N Company will have storage reserves filled to a target level of no less than 80 percent of capacity. If the storage target is not met, the Company will explain the variance and impact to core customers in the annual GCIM filing.

PRELIMINARY STATEMENT
(Continued)

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17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17H. BIOMETHANE GAS PROGRAM (BGP)

The purpose of the BGP is to identify and secure gas supply or sales contracts that further the goals of: the California Global Warming Solutions Act of 2006, as amended; the California Low Carbon Fuel Standard (California Code of Regulations §95480 through §95497); Senate Bill (SB) 1383 *Short-lived Climate Pollutants*; SB 1440 *Biomethane Procurement*, or other current or future legislative or regulatory efforts to reduce greenhouse gas emissions. BGP costs include the cost to purchase BGP supplies and the revenue that may be generated through the off-system sale or monetization of associated biomethane gas environmental attributes. Revenue associated with on-system BGP sales are not considered in or part of the GCIM calculations. To be considered part of the BGP, biomethane gas purchases must meet at least one of the following conditions:

1. The biomethane is delivered to California through a dedicated pipeline.
2. The biomethane is delivered to California through a common carrier pipeline and meets both of the following requirements:
   a. The source of biomethane injects the biomethane into a common carrier pipeline that physically flows within California, or toward the end user in California for which the biomethane was produced.
   b. The seller or purchaser of the biomethane demonstrates that the capture or production of biomethane directly results in at least one of the following environmental benefits to California:
      i. The reduction or avoidance of the emission of any criteria air pollutant, toxic air containment, or greenhouse gas in California.
      ii. The reduction or avoidance of pollutants that could have an adverse impact on waters of the state.
      iii. The alleviation of a local nuisance within California that is associated with the emission of odors.

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PRELIMINARY STATEMENT
(Continued)

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17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17H. BIOMETHANE GAS PROGRAM (BGP) *(continued)*

BGP purchase costs and off-system sales revenues are flowed through the GCIM calculations and have no impact on any GCIM Shared Savings or Costs. This flow through is accomplished by calculating the Daily BGP Benchmark Costs for each BGP purchase or off-system sale transaction by multiplying the daily BGP purchase or off-system sale quantities by the contract price corresponding to that specific BGP purchase or off-system sale quantity. In addition, the GCIM Purchased Gas Cost includes both the BGP purchase costs and any revenue from BGP off-system sales or monetization of associated biomethane gas environmental attributes.

BGP purchase or sales prices are determined on a case-by-case basis and are heavily dependent on the type of facility producing the biomethane gas, the feedstock for the biomethane gas and the location of the biomethane gas processing facilities in relation to the Company's distribution system. There is no minimum quantity that the Company must purchase or sell pursuant to the BGP. BGP purchase or sales contracts may be awarded through arms-length negotiations or as part of a solicitation process. Information related to BGP purchases and sales will be included with the Company's annual GCIM report submitted pursuant to Section 17J of this Preliminary Statement. N

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Las Vegas, Nevada 89193-8510
California Gas Tariff

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PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17I. BALANCING ACCOUNT TREATMENT L

The Company portion of annual saving or cost calculated pursuant to the GCIM shall be recorded separately in the Company's Purchased Gas Cost Balancing Account. In the event of a shared saving, a debit entry shall be recorded in the Purchased Gas Cost Balancing Account. In the event of a shared cost, a credit entry shall be recorded in the Purchased Gas Cost Balancing Account.

Upon approval by the Commission, the total Company portion of annual GCIM saving or cost shall be amortized in rates as described in Preliminary Statement 7, Purchased Gas Cost Balancing Account.

17J. REPORTING AND FILING REQUIREMENTS T

Within ninety (90) days of the conclusion of each annual GCIM period, the Company shall submit to the Commission's Energy Division and Public T Advocates Office (PAO) a compliance filing containing the annual GCIM T report. The report will describe the results of the annual GCIM period and provide all necessary data in support of the calculation of the GCIM period shared savings or costs. The confidential contents of the report are subject to the provisions of the General Order 66-C and Section 583 of the Public Utilities Code. If the compliance report indicates that shared savings or costs are warranted, the Company shall file an advice letter requesting authorization to make the appropriate accounting entries.

Preliminary Statement 17
Gas Cost Incentive Mechanism

REDLINED

(Blue Highlighted Text – Advice Letter No. 1006 revisions)
(Red Highlighted Text – Biomethane Gas Plan)

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM)

17A. PURPOSE

The Gas Cost Incentive Mechanism (GCIM) provides objective standards to measure gas procurement performance, and a methodology to share annual savings and costs between the Company's shareholders and ratepayers. The annual GCIM period shall begin each November 1 and conclude the following October 31. The GCIM is calculated separately for the Company's California service areas.

The GCIM provides the Company with an incentive to achieve overall gas costs that are at or below the prevailing market prices. This is accomplished by establishing a ~~volume~~ quantity-weighted performance benchmark (GCIM Benchmark), which represents the gas market environment experienced during the annual GCIM period. Savings or costs resulting from differences between the Company's actual gas cost and the GCIM Benchmark are compared at the end of each annual GCIM period and are shared between the Company's customers and shareholders if the difference exceeds certain tolerance bands. The methodology used to calculate the sharing components of the GCIM is detailed in Section 17E of this Preliminary Statement.

17B. APPLICABILITY

The GCIM shall apply to all core customer classes in the Company's California service areas.

17C. GCIM BENCHMARK

The GCIM Benchmark is the sum of the Gas Commodity Benchmark and the Gas Transportation Benchmark. The GCIM Benchmark is compared to the actual GCIM Purchased Gas Costs at the end of the annual GCIM period to determine any shared savings or costs.

1. The Gas Commodity Benchmark establishes an objective basis for evaluating gas costs. The benchmark is ~~volume~~ quantity-weighted (by MMBtu) based on the trading point where the gas supplies are purchased. ~~Volumes~~ Quantities are included in the Gas Commodity Benchmark calculation during the period when the supplies are purchased.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17C. GCIM BENCHMARK *(Continued)*

The Gas Commodity Benchmark is determined by multiplying daily purchased ~~volumes~~ quantities by the corresponding contract price or Benchmark Price Index. Which price is utilized is determined by whether the purchased ~~volumes~~ quantities are: 1) made under the Volatility Mitigation Program (VMP); or 2) index priced or spot market purchases; or 3) Biomethane Gas Program (BGP).

If the purchased ~~volumes~~ quantities were made under the VMP, then the corresponding contract price is used. If the purchased ~~volumes~~ quantities were index priced or spot market purchases, then the corresponding Benchmark Price Index is used. If the purchased quantities is made under BGP, then the corresponding contract price is used.

Each day during the annual GCIM period, ~~each volume~~ the quantity purchased under the VMP is multiplied by the respective contracted price corresponding to the specific VMP ~~volume~~ quantity purchased. The result of this calculation is the Daily VMP Benchmark Cost.

Each day during the annual GCIM period, ~~each~~ the index priced and spot market purchased ~~volume~~ quantity is multiplied by the corresponding Benchmark Price Index. The result of this calculation is the Daily Index or Spot Market Purchase Benchmark Cost.

Each day during the annual GCIM period, the quantity purchased under the BGP is multiplied by the respective contracted price corresponding to the specific BGP quantity purchased. The result of this calculation is the Daily BGP Benchmark Cost.

Each day during the annual GCIM period, the off-system quantity sold under the BGP is multiplied by the respective contracted sales price corresponding to the specific BGP quantity sold. The result of this calculation is the Daily BGP Benchmark Sales Revenue.

The Gas Commodity Benchmark is the sum of the Daily VMP Benchmark Costs ~~and~~, the Daily Index or Spot Market Purchase Benchmark costs, the Daily BGP Benchmark Costs, and the Daily BGP Benchmark Sales Revenue for the entire annual GCIM period.

For baseload purchases made for an entire month for the Southern California service area, ~~T~~the Southern California Benchmark Price Index is based on the simple average of first of the month prices reported in *Platts Inside FERC's Gas Market Report* for each of the indicated basin and border market trading points and the corresponding index prices from *Natural Gas Intelligence*. For purchases made for less than an entire month for the Southern California service area, the Southern California Benchmark Price Index is calculated daily and is based on the simple average of daily prices reported in Platt's Gas Daily for each of the indicated production and market center trading points and the corresponding index prices from SNL Energy Daily Gas Report. If one of the two publications used to calculate the simple average does not report an index price for a specific basin or border market trading point, the other publication will be used. If neither publication used to calculate the simple average reports a price for an indicated basin or market trading point, the Benchmark Price Index will be based on another available trade publication. If the selected trade publication(s) subsequently revises its reported price within the annual GCIM period, the Benchmark Price Index will be recalculated to reflect the corrected price.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17C. GCIM BENCHMARK *(Continued)*

The Northern California and South Lake Tahoe Benchmark Price Index is calculated daily and is based on the simple average of daily prices reported in *Platt's Gas Daily* for each of the indicated production and market center trading points and the corresponding index prices from *SNL Energy Daily Gas Report*. If one of the two publications used to calculate the simple average does not report an index price for a specific production or market center trading point, the other publication will be used. If neither publication used to calculate the simple average reports a price for an indicated production or market center trading point, the Benchmark Price Index will be based on another available trade publication. If the selected trade publication subsequently revises its reported price within the annual GCIM period, the Benchmark Price Index will be recalculated to reflect the corrected price.

2. The Gas Transportation Benchmark is the sum of all pipeline transportation costs for delivery of gas supply ~~volumes~~ quantities to the Company's distribution system and all fixed and variable storage costs.

   a. Pipeline transportation costs include fixed reservation charges, variable transportation costs, refunds, adjustments, credits, all applicable and effective surcharges and other related costs. The transportation costs are determined from the Company's transportation invoices, separately for each pipeline, for gas deliveries from the indicated basins/receipt points.

   b. Storage costs include injection, withdrawal, inventory charges, refunds, adjustments and credits as invoiced.

17D. GCIM PURCHASED GAS COST

The GCIM Purchased Gas Cost includes the following:

1. All gas commodity costs, including any adjustments, refunds, surcharges, penalties, inventory charges or credits;

2. Pipeline Transportation costs, including fixed reservation charges, variable transportation costs, refunds, adjustments, credits, all applicable and effective surcharges and other related costs included with the transportation invoices for deliveries to the Company's California service areas.

3. Storage costs including injection, withdrawal, and inventory charges and appropriate refunds, adjustments, and credits as invoiced;

4. Any revenues from release and brokering of pipeline or storage capacity;

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17D. GCIM PURCHASED GAS COST *(Continued)*

5. Any fees, charges or credits associated with the delivery of gas supplies through the Southern California Gas Company (SoCalGas) and Pacific Gas and Electric Company systems, including incremental costs for firm access rights if applicable;

6. Any gains, losses or expenses from gas futures and financial derivatives transactions, including but not limited to, forward contracts, futures, options, basis swaps, price swaps (including contracts for differences), and exchanges of futures for physical deliveries;

7. Any revenues from gas commodity sales (e.g. gas sales in the imbalance market, or other off-system sale); and

8. Any revenues from the off-system sale of BGP, including the monetization of any biomethane gas environmental attributes; and

9. Any appropriate GCIM annual period adjustments.

17E. ANNUAL SHARED SAVINGS/COST

Annual shared savings or costs are calculated when the GCIM Purchased Gas Costs are outside the tolerance bands. These are calculated as a percentage of the annual Gas Commodity Benchmark to create an “upper tolerance band” and “lower tolerance band.” Costs above the upper tolerance band and savings below the lower tolerance band are shared between ratepayers and shareholders. No sharing occurs when GCIM Purchased Gas Costs are between the tolerance bands.

1. Determination of the Tolerance Bands

   a. The upper tolerance band is calculated as the GCIM Benchmark, plus 3 percent of the Gas Commodity Benchmark.

   b. The lower tolerance band is calculated as the GCIM Benchmark, minus 2 percent of the Gas Commodity Benchmark.

2. Calculation of Shared Savings and Costs

   a. On an annual basis, GCIM Purchased Gas Costs are compared to the GCIM Benchmark to determine if shared savings or costs exist.

b. If GCIM Purchased Gas Costs are greater than the upper tolerance band, costs above the upper tolerance band are shared 50 percent to the ratepayers and 50 percent to the shareholders.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17E. ANNUAL SHARED SAVINGS/COST *(Continued)*

2. Calculation of Shared Savings and Costs *(Continued)*

c. If GCIM Purchased Gas Costs are less than the lower tolerance band, savings below the lower tolerance band are shared 75 percent to the ratepayers and 25 percent to the shareholders.

d. In no event shall the Company's portion of the annual shared savings or costs exceed 1.5 percent of the respective actual annual GCIM commodity costs for either of the Northern or Southern California Divisions.

e. In the event of an emergency (e.g. earthquake, pipeline failure, or other *force majeure* event), incremental costs and ~~volumes~~ quantities associated with that event will be excluded from GCIM Purchased Gas Costs and the GCIM Benchmark for the purpose of calculating any shared savings or costs. These exclusions will be justified by the Company in its annual GCIM report submitted pursuant to Section 17~~I~~J of this Preliminary Statement.

f. Commodity, transportation, and storage costs incurred by the Company in response to SoCalGas Operational or Emergency Flow Orders, reduced daily balancing windows, non-performance of firm contracted resources such as storage and pipeline capacity, and daily balancing or other curtailment procedures shall be excluded from GCIM Purchased Gas Costs and the GCIM Benchmark for the purpose of calculating any shared savings or costs. These exclusions will be explained by the Company in its annual GCIM report submitted pursuant to Section 17~~I~~J of this Preliminary Statement.

17F. VOLATILITY MITIGATION PROGRAM (VMP)

The purpose of the VMP is to identify and secure contracts for natural gas supplies that contribute to the mitigation of short-term market price volatility. Pursuant to D.05-05-033, VMP purchase costs are flowed through the GCIM calculations and have no impact on any GCIM Shared Savings or Costs. This flow through is accomplished by calculating the Daily VMP Benchmark Cost for each VMP purchase by multiplying the daily VMP purchase ~~volumes~~ quantities by the contract price corresponding to that specific VMP purchase ~~volume~~ quantity.

VMP purchase prices are fixed when the contract is awarded, based on then current market conditions. Contracted supply terms can range from one to twelve months, but shall not exceed two years. The Company solicits VMP bids for both the Company's Southern California service area and the Company's Northern California and South Lake Tahoe service areas. Solicitations are scheduled periodically throughout the year. In any solicitation, one or both of the California divisions may be involved, depending on the amount of VMP supplies already acquired. Up to 25 percent of the total forecasted annual supply is purchased as part of the VMP.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17F. VOLATILITY MITIGATION PROGRAM (VMP) *(Continued)*

VMP contracts are awarded to the lowest acceptable bidder as part of a solicitation process. Because the contracts are selected through a bidding process, prices for VMP purchases are assumed to be representative of the market at the time of the solicitation. Evaluating these purchases will include comparing the awarded contract to the corresponding bids received during the solicitation process. All contracts and information related to the solicitation process will be submitted with the annual GCIM filing.

17G. SOUTHERN CALIFORNIA STORAGE

Consistent with D.08-12-020, the Company receives a set-aside of SoCalGas storage inventory, injection, and withdrawal capacity equal to 1.98 percent of the inventory, injection, and withdrawal capacities that are allocated to the combined core customers of SoCalGas and San Diego Gas & Electric Company. Such storage set-aside is adjusted annually, no later than April 1. When this set-aside of SoCalGas storage is available, ~~T~~the Company uses its southern California storage resources primarily to reduce the impact of short-term or seasonal volatility in natural gas prices and as a peak demand supply source. To a lesser extent, storage is also employed as an imbalance management tool for intrastate capacity. The Company will endeavor to dispatch supplies into and out of storage in a manner that provides the greatest economic benefit to the ratepayers, based on market information available at that time and minimizes the purchase of supplies for periods less than an entire month for the Southern California service area. Prior to each November 1, the Company will have storage reserves filled to a target level of no less than 80 percent of capacity. If the storage target is not met, the Company will explain the variance and impact to core customers in the annual GCIM filing.

17H. BIOMETHANE GAS PROGRAM (BGP)

The purpose of the BGP is to identify and secure gas supply or sales contracts that further the goals of: the California Global Warming Solutions Act of 2006, as amended; the California Low Carbon Fuel Standard (California Code of Regulations §95480 through §95497); Senate Bill (SB) 1383 *Short-lived Climate Pollutants*; SB 1440 *Biomethane Procurement*, or other current or future legislative or regulatory efforts to reduce greenhouse gas emissions. BGP costs include the cost to purchase BGP supplies and the revenue that may be generated through the off-system sale or monetization of associated biomethane gas environmental attributes.

Revenue associated with on-system BGP sales are not considered in or part of the GCIM calculations. To be considered part of the BGP, biomethane gas purchases must meet at least one of the following conditions:

1. The biomethane is delivered to California through a dedicated pipeline.
2. The biomethane is delivered to California through a common carrier pipeline and meets both of the following requirements:
   a. The source of biomethane injects the biomethane into a common carrier pipeline that physically flows within California, or toward the end user in California for which the biomethane was produced.
   b. The seller or purchaser of the biomethane demonstrates that the capture or production of biomethane directly results in at least one of the following environmental benefits to California:
      (i) The reduction or avoidance of the emission of any criteria air pollutant, toxic air contaminant, or greenhouse gas in California.
      (ii) The reduction or avoidance of pollutants that could have an adverse impact on waters of the state.
      (iii) The alleviation of a local nuisance within California that is associated with the emission of odors.

BGP purchase costs and off-system sales revenues are flowed through the GCIM calculations and have no impact on any GCIM Shared Savings or Costs. This flow through is accomplished by calculating the Daily BGP Benchmark Cost for each BGP purchase or off-system sale transaction by multiplying the daily BGP purchase or off-system sale quantities by the contract price corresponding to that specific BGP purchase or off-system sale quantity. In addition, the GCIM Purchased Gas Cost includes both the BGP purchase costs and any revenue from BGP off-system sales or monetization of associated biomethane gas environmental attributes.

BGP purchase or sales prices are determined on a case-by-case basis and are heavily dependent on the type of facility producing the biomethane gas, the feedstock for the biomethane gas and the location of the biomethane gas processing facilities in relation to the Company's distribution system. There is no minimum quantity that the Company must purchase or sell pursuant to the BGP. BGP purchase or sales contracts may be awarded through arms-length negotiations or as part of a solicitation process. Information related to BGP purchases and sales will be included with the Company's annual GCIM report submitted pursuant to Section 17J of this Preliminary Statement.

17J. BALANCING ACCOUNT TREATMENT

The Company portion of annual saving or cost calculated pursuant to the GCIM shall be recorded separately in the Company's Purchased Gas Cost Balancing Account. In the event of a shared saving, a debit entry shall be recorded in the Purchased Gas Cost Balancing Account. In the event of a shared cost, a credit entry shall be recorded in the Purchased Gas Cost Balancing Account.

Upon approval by the Commission, the total Company portion of annual GCIM saving or cost shall be amortized in rates as described in Preliminary Statement 7, Purchased Gas Cost Balancing Account.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM) *(Continued)*

17~~H~~I. BALANCING ACCOUNT TREATMENT

The Company portion of annual saving or cost calculated pursuant to the GCIM shall be recorded separately in the Company's Purchased Gas Cost Balancing Account. In the event of a shared saving, a debit entry shall be recorded in the Purchased Gas Cost Balancing Account. In the event of a shared cost, a credit entry shall be recorded in the Purchased Gas Cost Balancing Account.

Upon approval by the Commission, the total Company portion of annual GCIM saving or cost shall be amortized in rates as described in Preliminary Statement 7, Purchased Gas Cost Balancing Account.

17~~I~~J. REPORTING AND FILING REQUIREMENTS ~~*(Continued)*~~

Within ninety (90) days of the conclusion of each annual GCIM period, the Company shall submit to the Commission's Energy Division and ~~Office of Ratepayer Advocates (ORA)~~ Public Advocates Office (Cal PAO) a compliance filing containing the annual GCIM report. The report will describe the results of the annual GCIM period and provide all necessary data in support of the calculation of the GCIM period shared savings or costs. The confidential contents of the report are subject to the provisions of the General Order 66-C and Section 583 of the Public Utilities Code. If the compliance report indicates that shared savings or costs are warranted, the Company shall file an advice letter requesting authorization to make the appropriate accounting entries.

Rule No. 21

Transportation of Customer-Secured Natural Gas

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS

This Rule describes the general terms and conditions that apply whenever the Company transports Customer-Secured Gas through its system. Customers electing to secure Biomethane Gas from a Biomethane Gas supplier that is also interconnected with the Company's system may only do so if such Biomethane Gas supplier complies with all terms and conditions set forth in Rule No. 22, Biomethane Gas, of this California Gas Tariff.

A. CHARACTER OF SERVICE

1. The basic transportation service rendered under Schedule Nos. GS-70/GN-70/SLT-70, GS-VIC, GS-LUZ, and GN-T shall consist of:

   a. The receipt by the Company for the account of the customer of gas at the interconnection between the Company, and its upstream pipeline supplier [herein called receipt point(s)].

   b. The transportation of the customer's gas through the Company's system for the account of the customer; and

   c. The delivery of the customer's gas after transportation by the Company for the account of the customer at the delivery point(s) into the customer's facility.

2. Core transportation customers in the Company's Southern California service areas, including groups aggregating core loads, will be allocated a pro rata share of the Commission regulated gas storage services that are available to the Company. The Company will inform the customer or Aggregator of the monthly and daily storage entitlement available to that customer or group.

   The Company's Southern California core transportation customers may inject gas into storage from April 1 to October 31 and may withdraw gas from storage from November 1 to March 31. The customer must inform the Company of the customer's storage injection schedule by the 23rd day of the month prior to actual gas injection. Daily storage injection nominations may not exceed 108 percent of the month's average daily storage injection quantity. Customers are not required to provide a monthly storage withdrawal nomination, but must provide the Company an estimate of the quantity expected to be withdrawn each month. Daily nominations for storage injections and withdrawals require a 48 hour advance notice. I

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

b. Nominations received after a deadline will be processed for the following cycle with the exception that late Cycle 5 Nominations will not be processed. The Company will confirm the quantities nominated for Cycle 1 (Timely Nominations) through all five cycles, regardless of upstream cuts in scheduled quantities, unless the Company receives a revised Nomination from the responsible party for any subsequent cycle. T

c. Intraday Nominations will replace existing Standing Nominations only for the duration of the flow day requested.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

d. Balancing quantities must be separately identified in the Nomination. The Company shall determine and notify the customer if there is sufficient operating flexibility to schedule such quantities. The Company will only accept balancing quantities for Cycle 1 Nominations.

e. Nominations for multiple customers must specify the quantity of gas to be scheduled at each of the Company's receipt points with its upstream pipeline(s). The customer or Agent must specify, prior to the flow day, the method to be used by the Company for allocating imbalances among individual customers. If the allocation method is not specified prior to the flow day, the Company will allocate any imbalances pro rata from the Cycle 1 Nomination.

3. It shall be the customer's, the customer's agent, or, for core customers aggregating load, the Aggregator's obligation to make arrangements with the Company and other parties for delivery of gas into the Company's upstream pipeline suppliers' systems and for receipt by customer of gas after transportation to the point(s) of delivery. The customer, agent or Aggregator shall be obligated to provide dispatching and operating coordination with the Company and allow the Company access to appropriate charts and records. Such arrangements must be satisfactory to the Company.

4. The customer shall cause deliveries into the Company's system of quantities to be transported hereunder to be made at approximately a uniform daily rate and based on historical use where appropriate. On any gas day, the Company may refuse to accept quantities of gas that result in fluctuations in excess of 10 percent from the quantities transported during the previous gas day. Fluctuations in excess of 10 percent shall only be allowed if prior approval has been obtained from the Company's Gas Scheduling department. T T T T

5. Upon request of the Company, the customer shall from time to time submit its best estimates of the daily, monthly and annual quantities of gas to be transported, including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations. T

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. Customers must endeavor to schedule supplies at the Company's receipt points that match the customer's daily demands. Balancing of thermally equivalent quantities of gas received and delivered shall be achieved as nearly as feasible daily, considering the customers right, subject to the Company's approval, to vary receipts and deliveries within specified limits. Customer's deliveries or metered quantities shall be those quantities which have passed the point(s) of delivery as determined by the Company's meter. N N T T T

a. Imbalances N

The Daily Imbalance is defined as the difference between the customer's daily transportation quantities scheduled for burn and the customer's daily metered quantity, including the effect of any adjustment for cycle billing. Any Daily Imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily period. Daily Imbalances established in excess of the applicable Daily Tolerance Band, including days when the Company has issued an Operational Flow Order, will be subject to the Noncompliance Charge(s) specified in Section C.6.c.iii and Excess Imbalance charges specified in Section E. of this Rule.

The Monthly Imbalance is defined as the difference between the customer's monthly transportation quantities scheduled for burn and the customer's monthly metered quantity, adjusted for any previous Monthly Imbalances, and including any adjustment for cycle billing. Monthly Imbalances established in excess of the applicable Monthly Operating Window will be subject to the Excess Imbalance charges specified in Section E. of this Rule.

The Cumulative Monthly Imbalance is the customer's Monthly Imbalance that remains after the Monthly Imbalance Trading Period, pursuant to Section D. of this Rule, is complete. Except for core customers aggregating load, any Cumulative Monthly Imbalance shall be carried forward to the next calendar month and shall be considered first through the meter during the next calendar month. Cumulative Monthly Imbalances for core customers aggregating load shall be carried forward to the second following calendar month and shall be considered first through the meter during the second following calendar month. N T T T T

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. a. Imbalances *(Continued)* N

Pursuant to Section D. of this Rule the customer may elect to offset any Monthly Imbalance against: (1) Monthly Imbalances created by other customers of the Company; (2) in the case of core customers, the customer's or core aggregator's available storage account capacity or inventory for the Company's Southern California service area, if sufficient; or (3) Monthly Imbalances created by customers served directly by Southern California Gas Company for customers in the Company's Southern California service area. Such offsets must be accomplished prior to the end of the authorized trading period for a month. All trading of imbalances shall be conducted in accordance with Sections D and E of this Rule. N/T T T T T T

Customers may not use Monthly Imbalance Trading to offset Daily Imbalances or Daily Noncompliance Charges(s). N

b. Daily Balancing

Customers are provided a Daily Tolerance Band under which the customer's Daily Imbalance may not be greater or less than plus or minus 25 (Daily Tolerance Band Percentage) of the customer's daily transportation quantities scheduled for burn. The Daily Tolerance Band and Daily Tolerance Band Percentage of plus or minus twenty-five-percent is subject to the Company's adjustment downward pursuant to Section C.6.c herein.

c. Operational Flow Order (OFO)

The purpose of an OFO is to protect system integrity, manage upstream resources, or ensure that Company operational conditions comply with upstream pipeline operational requirements. The following conditions apply to the Company's issuance of OFOs. N

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. c. Operational Flow Order (OFO) *(continued)* N

(i) The Company will issue and implement an OFO with as much notice as possible before 9:00 a.m. PCT on the day prior to the day of gas flow; however, the Company reserves the right to issue or modify an OFO at any time. The Company will provide notice to customers of an OFO event, or changes during an OFO event electronically or by other means mutually acceptable to the Company and the Customer. The notice will contain, at a minimum: (1) the starting time of the OFO, (2) the OFO Stage and Daily Tolerance Band Percentage from Section C.6.c.iii. of this Rule, (3) the OFO duration, (4) the extent of the OFO (system wide, local, or customer specific), (5) the reason(s) for the OFO and (6) if not readily available through other Company sources, the prior day's Btu conversion factor. The Company reserves the right to issue an OFO for multiple consecutive days under one notice based on the prevailing conditions on its system or the conditions present on upstream pipelines. The Company reviews those conditions daily and, using its sole discretion, may cancel the multiple consecutive day OFO when system conditions allow.

(ii) If an OFO is issued or modified after the start of a gas day contained in the OFO, the Company will make a good faith effort to notify customers at least one hour prior to an Intraday Nomination deadline as set forth in Section C.2. of this Rule. When an OFO is issued or modified after the start of a gas day contained in the OFO, the Company will prorate the Daily Tolerance Band based on the number of hours each Daily Tolerance Band was effective during the day.

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RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. c. Operational Flow Order (OFO) *(Continued)* N

(iii) While an OFO is in effect, the customer's Daily Imbalance may not be greater or less than plus or minus the Daily Tolerance Band Percentage specified in the OFO notice multiplied by the customer's daily transportation quantities scheduled for burn (or as prorated per Section C.5.c.ii of this Rule), otherwise the customers will be subject to the applicable Noncompliance Charge. The possible Daily Tolerance Band Percentages and Noncompliance Charge by OFO Stage are:

OFO Stage	Daily Tolerance Band %	Noncompliance Charge
No OFO	+/- 25%	$0.00/therm
1	+/- 10%	$0.50/therm
2	+/- 5%	$2.50/therm
3	+/- 0%	$5.00/therm

Prior to the issuance of an OFO, the Company may issue, but is not required to issue, a "Hold Burn to Schedule Quantities" notice requesting customers to match their daily metered quantities and scheduled quantities. An OFO event may begin with a Stage 1 notice; however, an OFO event, and associated Noncompliance Charge(s), may begin at any Stage the Company deems necessary. After the Company notices an OFO event, it may subsequently evaluate the Stage of the OFO and modify the OFO Stage and provide notice to customers of the change. Further the Company may subject a specific customer or specific group of customers to an elevated OFO Stage if those customer(s) do not comply with prior requests to balance daily scheduled quantities with daily metered quantities. The Company will only subject a specific customer or specific group of customers to an elevated OFO Stage for the period those customer(s) do not balance daily scheduled quantities with daily metered quantities. N

Advice Letter No.______ Issued by Date Filed February 1, 2019
Decision No.______ Justin Lee Brown Effective______
Senior Vice President Resolution No.______ T

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RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. c. Operational Flow Order (OFO) *(continued)*

(iv) For customers having meters monitored by telemetry equipment, the Company will not assess Noncompliance Charges during an OFO event based on estimated daily usage. N

D. TRADING MONTHLY IMBALANCE QUANTITIES T/L

The customer may elect to offset Monthly Imbalance by identifying and reaching an agreement with one or more transportation customers in the Company's Southern California, Northern California, or South Lake Tahoe service areas, as applicable, that have an established Monthly Imbalance in an opposite direction. Customers may not trade Monthly Imbalances between the Company's Southern California and Northern California/South Lake Tahoe service areas. Customers in the Company's Southern California service area may also identify and reach agreement with transportation customers served directly by Southern California Gas Company, subject to authorization by the Company. Core customers, including customers aggregating core loads, may also offset Monthly Imbalances with available storage account quantities held by that customer or group of customers for the Company's Southern California service area, if sufficient. Customers that agree to trade Monthly Imbalances will be subject to the following conditions: T T T D/T T T

1. Customers will be entitled to trade their entire Monthly Imbalance for a given month. T T

2. Trading of Monthly Imbalance quantities by customers may begin at 7:00 a.m. Pacific Clock Time on the 25th calendar day in the month of notification and must be completed by 3:00 p.m. Pacific Clock Time of the 30th day of the month in which the customer's imbalance statement is rendered. During the month of February, the trading period begins at 7:00 a.m. Pacific Clock Time on the 23rd calendar day of the month and ends at 3:00 p.m. Pacific Clock Time on the 28th calendar day of the month. If the end of the trading period falls on a weekend or holiday, the prior business day shall be the last day for trading to occur. T L

Advice Letter No.______ Issued by Date Filed February 1, 2019
Decision No.______ Justin Lee Brown Effective______
Senior Vice President Resolution No.______ T

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

D. TRADING OF IMBALANCE QUANTITIES *(Continued)*

3. Trading of Monthly Imbalance quantities shall only reduce a customer's imbalance toward, but not beyond, a zero Monthly Imbalance level. A customer may not trade to establish a Monthly Imbalance in the opposite direction of the customer's original Monthly Imbalance. T T T T

4. Monthly Imbalances for customers with multiple meters will be determined by aggregating all meters included under a particular transportation service agreement. Customers with multiple meters shall not trade Monthly Imbalances based on individual meters or sales accounts. T T T

5. The customer is solely responsible for contacting other transportation customers of the Company or of Southern California Gas Company, as applicable, to explore opportunities for trading Monthly Imbalances. The customer is also solely responsible for any financial arrangements between trading partners occurring as a result of the completion of an imbalance trade. The Company assesses its transportation quantity charges based on the transportation billing quantities, adjusted for any quantities traded pursuant to this Section. T T T

6. Customers wishing to execute a trade of Monthly Imbalance quantities must submit an Imbalance Trading (Form No. 880.0SCA for Southern California service area customers or Form No. 880.00NCA for Northern California and South Lake Tahoe service area customers) to the Company by the Monthly Imbalance trading deadline. Such form shall be directed to a location and via a method specified by the Company. The Company will review, and approve as appropriate, all Monthly Imbalance trading requests submitted by customers. Customers whose trade requests are approved will be sent revised transportation billing worksheets and invoices. The Company will not be responsible for, or involved with, the transfer of gas supply between customers or any related compensatory transactions between customers. T T T T

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

D. TRADING MONTHLY IMBALANCE QUANTITIES *(Continued)* T

7. In the event a Southern California service area customer is proposing a Monthly Imbalance trade with a customer served directly by Southern California Gas Company, the Company will act as the trading partner with the Southern California Gas Company customer on behalf of the Company's customer. Such trade will be subject to prior authorization by the Company and Southern California Gas Company tariff provisions. T T

8. For the Company's Southern California service area, except during any period of system curtailment of core service as described in Rule No. 20 of this California Gas Tariff, core transportation customers, including those customers aggregating core loads, may use their available storage inventory capacity and quantities to: (1) offset the customer's own transportation imbalances; or (2) trade with other core customers served by the Company for their transportation imbalances. Core transportation customers may not trade storage capacity or quantities with customers served directly by Southern California Gas Company. Core customers trading imbalances with storage service must have sufficient capacity or inventory during the month the imbalance is created and at the time the trade is completed.

E. PAYMENT FOR EXCESS IMBALANCES T/D

1. After the imbalance trading period, the customer's Cumulative Monthly Imbalance is the difference between actual monthly scheduled quantities and monthly metered quantity, adjusted for any previous Monthly Imbalances, including any adjustment for cycle billing and Monthly Imbalance trades. Customers receive Monthly Tolerance Band equal to plus or minus eight percent of the total metered gas quantity for a month. Cumulative Monthly Imbalances within the Monthly Tolerance Band will be allowed without incurring an Excess Imbalance Charge. Cumulative Monthly Imbalances in excess of the Monthly Tolerance Band are defined as Excess Imbalance quantities and incur a Positive or Negative Excess Imbalance Charge. T N/D

As defined in Section C.6.a of this Rule, the customer's Daily Imbalance is the difference between the customer's daily transportation quantities scheduled for burn and the customer's daily metered quantity, including the effect of any adjustment for cycle billing. Daily Imbalances at the end of the billing period within each day's Daily Tolerance Band will be allowed without an Excess Imbalance Charge. Daily Imbalances in excess of each day's Daily Tolerance Band are defined as Excess Imbalance quantities and incur a Positive or Negative Excess Imbalance Charge. T N N

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

E. PAYMENT FOR EXCESS IMBALANCES *(Continued)* L

In addition to the charges payable under the customer's otherwise applicable rate schedules, Excess Imbalance quantities shall be billed as follows: T

a. Positive Excess Imbalance L

D/N

When the customer's Daily Imbalance is greater than the customer's Daily Tolerance Band a Daily Positive Excess Imbalance exists. When the Customer's Cumulative Monthly Imbalance exceeds eight-percent of the customer's total metered gas quantity for a month, a Monthly Positive Excess Imbalance exists. Daily and Monthly Positive Excess Imbalance quantities shall be retained by the Company and the excess imbalance eliminated after the customer's bill is credited with the lower of the following gas costs for each therm of the Excess Imbalance in addition to the customer's applicable transportation quantity charge: N

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

E. PAYMENT FOR EXCESS IMBALANCES *(Continued)* L

1. a. Positive Excess Imbalance *(Continued)*

(i) Fifty percent of the otherwise applicable Gas Cost or Procurement Charge as stated in the Statement of Rates; or

(ii) The lowest incremental cost of gas purchased by the Company during the same month.

b. Negative Excess Imbalance D

When the customer's Daily Imbalance is less than the customer's Daily Tolerance Band a Daily Negative Excess Imbalance exists. When the Customer's Cumulative Monthly Imbalance is less than eight-percent of the customer's total metered gas usage for a month, a Monthly Negative Excess Imbalance exists. Negative Excess Imbalances shall be eliminated after the customer is billed the higher of the following two gas costs for each therm of the Excess Imbalance in addition to the customer's applicable transportation quantity charge: N N

(i) For billing periods during which customers have not been curtailed, the Negative Excess Imbalance shall be assessed the higher of the following gas costs: T T

(a) 150 percent of the otherwise applicable Gas Cost or Procurement Charge as stated in the Statement of Rates of this California Gas Tariff; or

(b) The highest incremental cost of gas purchased by Southwest during the same month.

(ii) For billing periods during which customers have been curtailed, the Company shall assess customers a balancing service fee of $1.00 per therm to applicable imbalances. Balancing service fees shall be assessed to core customers when any core customers have been curtailed. Noncore customers shall be assessed balancing service fees when noncore customers of an equal or greater priority class have been curtailed. The balancing service fee shall be applicable to the entire Negative Excess Imbalance established by a customer during which period the curtailment occurred.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

E. PAYMENT FOR EXCESS IMBALANCES *(Continued)* T

2. If a customer is assessed a charge pursuant to Section E.1.a or E.1.b of this Rule, based on Company billing information that is later determined to be in error, the customer shall be credited an amount equal to the imbalance charges not assessable based on the corrected billing information. If a customer is not assessed a charge pursuant to Section E.1.a or E.1.b of this Rule, based on Company billing information that is later determined to be in error, the customer shall be billed for any applicable imbalance charges determined to be assessable based on the revised billing information. T T T T

3. If imbalances between nominations and deliveries of a customer's gas to the Company's upstream pipeline suppliers cause the Company to purchase gas it would not have otherwise purchased and/or to incur additional costs not covered by the Company's applicable gas tariff rate(s), the customer(s) causing such costs will be subject to a surcharge equal to the additional cost not recovered through the gas tariff rate(s).

4. The Company shall not be required to perform or continue service on behalf of any customer that fails to comply with the terms contained in this Rule, applicable rate schedule, and the terms of the customer's Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any customer under any provision of this Rule, applicable rate schedule, or the Service Agreement; provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

5. Noncompliance and Excess Imbalance Charges will be credited to Account No. 191, Unrecovered Purchased Gas Costs. T

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

F. MEASUREMENT OF CUSTOMER-SECURED GAS

1. All quantities referred to in Sections C and D of this Rule shall be provided as therms (100,000 British thermal units). T

2. The Company or its agent shall calibrate and maintain meters and related equipment at intervals specified by the Company. The customer shall have access to the Company's meters and shall be allowed to inspect the meters and charts or other records of measurement at any reasonable time. If any inaccuracy is discovered, it will be handled as described in Rule No. 17 of this California Gas Tariff.

3. If the customer's gas is commingled with other gas at the receipt point(s) or at the point(s) of delivery, the scheduling arrangements and the Company's records shall include procedures for the division of the total quantity at such points. Other than advance sales service nominations made by partial requirements customers, gas transported under Schedule No. GN-T shall be deemed to be delivered first through the meter.

4. The Company's Supplier may be receiving gas from various sources. Where the customer's shipper acts as the Company's Supplier's measuring agent, the customer shall accept as accurate the customer's Shipper's declaration of the quantity of gas it has delivered to the Company for the customer's account. Where gas is measured by the Company, the customer shall accept as accurate the Company's measurement of gas.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

G. BILLING AND PAYMENT

1. The Company shall render a bill to the customer, agent or Aggregator, whichever is applicable, on or before the 10th day of each month.

2. For customers aggregating core loads, any imbalance charges pursuant to Section E of this Rule will be billed to the customer's Aggregator. The customer shall be ultimately responsible for all billings. Additional billing and payment terms and conditions for core aggregation are set forth in Section M of this Rule.

3. Transportation customers that are not part of core aggregating groups shall pay on or before the 25th day of each month for the service rendered hereunder during the preceding month as billed by the Company. Such payment shall be made in immediately available funds on or before the due date to a depository designated by the Company. If the 25th falls on a day that the designated depository is not open in the normal course of business to receive the customer's payment, then payment shall be made on or before the last business day preceding the 25th day that such depository is available. If presentation of a bill to the customer by the Company is delayed after the 10th day of the month, then the time of payment shall be extended accordingly unless the customer is responsible for such delay.

4. The customer, customer's agent or Aggregator shall reimburse the Company for any charges rendered or billed to the Company by its Supplier(s), by any other upstream transporters and gas gatherers, or by any political subdivisions of the State of California, either before or after termination of the Service Agreement, which the Company, in its sole good faith opinion, determines have been incurred because of the transportation of gas for the customer's account hereunder and should, therefore, appropriately be borne by the customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for quantities, Gas Technology Institute surcharges, penalty T charges, and filing fees. The customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the customer.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

G. BILLING AND PAYMENT *(Continued)*

5. Periodically, quantity adjustments may be made by the Company's Supplier(s), the customer's agent or the Aggregator. Should resulting adjustments to customer bills be necessary, such adjustments will be applied during the month in which the quantities were delivered to the customer for the purposes of determining the applicability of the provisions of Schedule Nos. GN-T, GS-70/GN-70/SLT-70, GS-VIC, and GS-LUZ of this California Gas Tariff. T T T T

H. ESTABLISHING TRANSPORTATION SERVICE

1. Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the customer providing the following information to the Company:

   a. Point(s) of Delivery — Point(s) of delivery by the Company to the customer.

   b. Gas Quantities — The Maximum Daily Quantity (MDQ) applicable to each receipt point(s) and the maximum quantity per day applicable to each point(s) of delivery, and the estimated total quantities to be received and transported over the delivery period stated individually in therms for each receipt point and each point of delivery.

   c. Term of Service —

      (i) Date service requested to commence; and

      (ii) Date service requested to terminate.

   d. Performance — A letter from the customer certifying that the customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Service Agreement. The customer's agent or Aggregator, if any, must be named.

2. Upon receipt of all of the information specified above, the Company shall prepare and tender to the customer for execution a Service Agreement in the form contained in this California Gas Tariff. If the customer fails to execute the Service Agreement within 30 days of the date tendered, the customer's request shall be deemed null and void. A 30-day prior written notice by core aggregation customers or the respective Aggregator is required for cancellation of a service agreement for Core Aggregation Transportation service.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

K. POSSESSION OF GAS AND RESPONSIBILITY

As between the Company and the customer, the customer shall be deemed to be in control and possession of the gas until it has been delivered to the Company for transportation at the receipt point(s). The Company shall thereupon be deemed to be in control and possession of the gas until the gas shall have been delivered to the customer at the point(s) of delivery, after which the customer shall be deemed to be in control and possession. The customer shall have no responsibility with respect to any gas after it has been delivered to the Company at the receipt point(s) on account of anything which may be done, happen or arise with respect to said gas, until said gas is delivered to the customer at the point(s) of delivery. The Company shall have no responsibility with respect to said gas prior to its delivery to the Company at the receipt point(s) or after its delivery to the customer at the point(s) of delivery, or on account of anything which may be done, happen or arise with respect to said gas prior to such receipt or after such delivery.

L. WARRANTY OF TITLE

The Company accepts gas for the customer’s account at the receipt point(s) subject to the understanding that the customer warrants that at will, at the time of delivery of gas to the Company for transportation, have the right to cause delivery of gas to the Company and that it will indemnify the Company and hold the Company harmless from all adverse claims of all persons to such gas. D

The Company warrants that, at the time of delivery of the transported gas to the customer at the point(s) of delivery, it will not have encumbered the gas in any manner whatsoever from the time the gas is accepted at the receipt point(s) until the gas is delivered to the customer at the point(s) of delivery.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM

The provisions contained in this Section M apply only to those customers participating in the Company's Core Aggregation Transportation (CAT) program. The previous provisions of this Rule No. 21 and Schedule No. GN-T of this California Gas Tariff apply to the CAT program, unless superseded by provisions contained in this Section M. In accordance with Decision (D.) 14-08-043, D.18-02-002, and Public Utilities Code Section 981, unless otherwise exempt, a CAT offering core aggregation transportation service to residential or small commercial customers is required to register with and receive approval from the Commission prior to offering core aggregation transportation service.

1. Enrollment of Customers

   a. An agent or third party (Aggregator) who requests transportation service for customers aggregating core loads shall provide to the Company a Utility Authorization for Core Aggregation Transportation Service (Form No. 881.0) executed by the customer identifying each customer's meter location whose load has been aggregated. The Utility Authorization shall grant the Aggregator the authority to act on the customer's behalf; and allow the Company to release information about the customer to the Aggregator. By submission of the signed Utility Authorization, the Aggregator warrants that the customer being enrolled in the CAT program has authorized the Company to release the customer's current and historical information, including current and historical gas consumption information, billing information, and payment information, to that specific Aggregator or its agent.

   b. An Aggregator seeking to provide a customer with CAT service will be responsible for compliance with the Commission's verification rules set forth in D.18-02-002.

   c. The minimum term for customers electing CAT service is 12 consecutive months.

   d. The Company shall tabulate the customer's most recent 12 months' usage and provide the usage history to the Aggregator within 30 days from submittal to the Company by the Aggregator. The Company shall utilize this usage history to establish the Aggregator's Maximum Daily Quantity (MDQ) for any period. D

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

e. The Company will process requests from Aggregators to begin service to customers within 90 days of submittal; however, every reasonable effort will be made to begin CAT service for the customer in the month following submittal.

f. Customers taking CAT service must provide 90 days prior written notice to the Company to change Aggregators. A customer who has received CAT service for the minimum term is not required to remain with a newly-elected Aggregator for a minimum term.

2. Storage Allocation and Rights

a. For the Company's Southern California service areas, gas storage inventory injected by Aggregators may not be subjected to encumbrances of any kind. Aggregators will be assigned month-end storage inventory targets by the Company to meet the Company's month-end storage targets and maintain minimum quantities sufficient to meet the Company's peak day and cold year seasonal requirements. Aggregators will not be allowed to withdraw gas in inventory below the month-end targets established by the Company. Gas storage inventory to meet core reliability cannot be used to cure an under-delivery of flowing supplies during an imbalance trading period. T

b. During the injection season, flowing supplies scheduled for injection will be delivered first, with all remaining flowing supplies scheduled for delivery to the Company's Southern California distribution system for current month use.

c. Aggregators in the Company's Northern California and South Lake Tahoe service areas are subject to the terms and conditions of the Paiute Pipeline Company's FERC Tariff for all storage activities.

d. When an Aggregator adds a customer or customers to its Group which represents an addition of more than 150,000 therms of storage inventory, a pro rata portion of the existing gas storage inventory will be sold by the Company to the Aggregator at the current month's Procurement Charge as set forth in the currently-effective Schedule No. GCP of this California Gas Tariff. When a customer terminates CAT service which represents a reduction of more than 150,000 therms of storage inventory and returns to the otherwise applicable sales schedule, a pro rata portion of the existing gas storage inventory will be sold by the Aggregator to the Company at the current month's Procurement Charge as set forth in the currently-effective Schedule No. GCP of this California Gas Tariff.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)* D/T

3. Credit & Collection Rights and Obligations D

Customers that aggregate core loads will be financially liable for Company intrastate transportation charges, interstate demand charges or surcharges, and other costs allocated to customers by the Commission. The Aggregator will be financially liable for charges related to managing its procurement portfolio on behalf of the customers it serves.

a. Establishment of Credit L

(i) Application for Service — The Aggregator shall be required to complete a Credit Application (Form 882.0) that includes any financial information needed to establish credit upon initial application for service on an annual basis or whenever the Aggregator’s MDQ increases by 25,000 therms per day or more. A non-refundable credit application processing fee of $500 may be charged to offset the cost of determining the Aggregator’s creditworthiness. The Company will establish the Aggregator’s credit limit based on the creditworthiness evaluation and the Aggregator’s MDQ.

The Company shall have the right to request additional financial information on a periodic basis during the Aggregator’s participation in the CAT program. In the event the Company determines that a financial change has or could adversely affect the creditworthiness of the Aggregator or if the requested financial information is not provided, the Company may terminate the Aggregator’s participation.

(ii) Security Deposit — Aggregators may submit a security deposit in lieu of the creditworthiness evaluation to qualify for participation and/or to increase their MDQ. The amount of the deposit may be in the form of cash, letter of credit, surety bond, guarantee, or other form of security acceptable to the Company.

Required deposits are due and payable upon demand prior to participation in the CAT program or the effective date of the change in the Aggregator’s MDQ, and applicable. Participation will be subject to termination if deposits are not paid within 15 calendar days after demand. L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

T/L

3. Credit & Collection Rights and Obligations *(Continued)*

b. Calculation of Creditworthiness Requirements (CWR) L

The calculation of the amount of the deposit and the credit limit will take into account the Aggregator's MDQ and the nature of services for which the Aggregator bills its customers. This CWR shall be calculated as follows:

(i) Aggregator Bills Customers For Gas Only:

CWR1 = 120 days x MDQ x 150% Annual Average Procurement Charge

(ii) Aggregator Bills All Customers For Gas and Transportation Charges:

CWR2 = CWR1 + (75 days x MDQ x Average Transportation Rate)

c. Other Options

An Aggregator may select the following options to reduce its CWRs:

(i) Guaranteed Deliveries — The Aggregator may guarantee weekly delivery of gas equal to a percentage of projected usage acceptable to the Company and the Aggregator. By satisfying the guaranteed delivery percentage, an Aggregator can reduce its CWR by the percentage of guaranteed deliveries.

(ii) Storage Collateral — For the Company's Southern California service area, an Aggregator may reduce its CWR by maintaining a prescribed quantity of gas in storage in addition to gas stored to meet its core reliability requirements. The prescribed quantity specified by the Aggregator and the Company will reduce the number of days used in the calculation of the CWR by the prescribed quantity divided by the Aggregator's MDQ. T T

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RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

3. Credit & Collection Rights and Obligations *(Continued)* T/L

c. Other Options *(Continued)* L

(iii) Accelerated Payments / Immediate Payment For Services Rendered — If the Aggregator bills its customers for Company transportation charges, then the Aggregator may reduce its CWR by paying the Company for transportation service on a weekly basis. The weekly payments will be estimated based on the average retail core transportation charge in effect and the historical monthly usage of the Aggregator's customers. Weekly payments reduce the number of days used in calculating the transportation component of the Aggregator's CWR from 75 days to 22 days.

d. Billing and Payment Terms

The Company may allow or require the Aggregator to bill end-use customers for the Company's transportation charges and the Aggregator may allow the Company to bill end-use customers for the Aggregator's commodity charges, if available. All customers in a given Group, however, must elect the same billing option for all applicable charges.

Upon request, core aggregation customers shall be permitted to review only those billings that the Company has presented to the customer's Aggregator in conjunction with service to the customer's account. The Company shall forward a copy of all transactions between the Company and the customer's Aggregator to customers requesting such information about their account.

When the customer is billed directly by the Company for charges, the Company will forward customer usage to the Aggregator on a timely basis.

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RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

3. Credit & Collection Rights and Obligations *(Continued)* T/L

d. Billing and Payment Terms *(Continued)* L

(i) Weekly Billing — For an Aggregator who bills end-use customers for Company transportation charges, to eliminate the cash lag in the current month-end billing of Company transportation charges and reduce the Aggregator's CWRs, weekly summary billing of customer accounts may be implemented, if available. Interstate transportation charges and imbalance billing and notification will occur monthly. D

(ii) Payment Terms — Bills are due and payable on presentation. All payments will be done by wire transfer unless otherwise agreed to by the Company.

Bills will be considered delinquent if not paid within 15 days of the mailing date. Delinquency notices will be mailed to the Aggregator and may be mailed to each of the Aggregator's customers. If the bill is not paid within seven days of the issuance of the delinquency notice, the Aggregator's participation will be subject to termination by the Company, the individual Group customers will be billed for a pro rata share of outstanding charges and normal collection procedures will be followed in accordance with the Company's applicable rules.

(iii) Late Payment — If the bill is not paid within seven days of the issuance of the delinquency notice, then:

(a) A seven day notice may be mailed to the Aggregator and its customers may be advised of such notice. If the charges in the notice remain unpaid, participation in the program is subject to termination. The Aggregator and individual aggregating customers remain responsible for all charges incurred under the CAT program, even if such charges are incurred after the termination becomes effective.

L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

3. Credit & Collection Rights and Obligations *(Continued)* T/L

d. Billing and Payment Terms *(Continued)* L

(iii) Late Payment *(Continued)*

(b) The outstanding balance will be subject to late payment fees and collection procedures in accordance with the Company's applicable Rules in this California Gas Tariff.

(c) For the Company's Southern California service area, an Aggregator will not be able to increase its MDQ, add new customers, or trade, sell or withdraw any gas in storage until late payment is cured.

If an Aggregator pays late three or more times by seven days or less, or pays late once by more than seven days in any contiguous 12 month period, then, in addition to the above, the Aggregator will lose its "good payment" status defined below and the Company may request an additional security deposit or escrow agreement.

(iv) Good Payment History — In order to establish a good payment history, the Aggregator must pay each bill in full within 15 days after transmittal. An Aggregator's CWRs will be reduced by two percent, retroactive to the date program participation was established, for every 12 months of good payment history. L T/L L

If at any time there has been a detrimental change in the financial condition of the Aggregator or good payment history is lost, the Company, at its sole discretion, may reestablish the Aggregator's CWRs. L

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RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

3. Credit & Collection Rights and Obligations *(Continued)* T/L

d. Billing and Payment Terms *(Continued)* L

(v) Termination of Service (Aggregator) — Service may be terminated if payment is not received within seven days of the issuance of a delinquency notice, the Company receives any notification that the Aggregator has filed or will be filing any type of bankruptcy or is closing its business.

Upon termination of an Aggregator's participation, the following shall apply:

(a) The Company will send notices of termination to the Aggregator, each of the Aggregator's customers, and to the Commission.

(b) The Company will establish an escrow agreement account for collections of outstanding customer payments.

(c) Any gas that has been delivered into the Company's system on behalf of the Aggregator, including gas in storage, will be used to offset any immediate imbalances. L

(d) The Aggregator will lose its right to an eight percent tolerance for monthly transportation imbalances and will be required to trade toward a zero imbalance. T/L T/L L

(e) All fees, charges and other obligations of the Aggregator to the Company shall be immediately due and payable and shall be subject to the Company's approved late payment charges.

At the time of termination, the Company shall apply any deposit held on the Aggregator's behalf to recoup unpaid bills. If the deposit does not adequately cover the charges owed by the Aggregator, the customers represented by the Aggregator will be liable for any applicable outstanding charges excluding procurement management charges. The Aggregator shall also be liable for all costs, expenses and attorney's fees incurred by the Company as a result of the Aggregator's termination or default. L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

3. Credit & Collection Rights and Obligations *(Continued)* T/L

d. Billing and Payment Terms *(Continued)*

(vi) Billing Disputes — If a Core Aggregation customer or the Aggregator disputes a bill from the Company, the disputed amount will be deposited with the Commission pending resolution of the dispute under the existing Commission procedures. If a Core Aggregation customer disputes a bill from their Aggregator, the customer will remain obligated to pay Company charges in a timely manner; the Aggregator shall not withhold payment of any such Company charges pending resolution of any such disputes.

A customer of an Aggregator shall have a reasonable opportunity to have the customer's meter tested to ensure the reasonable accuracy of the meter. In accordance with Public Utilities Code Section 985(f), in the event of a billing dispute, a customer may ask the Company to test the customer's meter to ensure reasonable accuracy of the meter. The cost of this meter test shall be in accordance with Rule No. 17 of this California Gas Tariff.

No termination of service will occur for a dispute while the Commission is hearing the matter.

4. Consumer Complaints Regarding Aggregators T

In accordance with D.14-08-043, D.18-02-002, and Public Utilities Code Section 983, the Commission shall accept, compile and attempt to informally resolve consumer complaints regarding Aggregators: http://consumers.cpuc.ca.gov/californiacares/.

5. Termination of Service (Customer) T

a. The Utility Authorization for Core Aggregation Transportation Service (Form 881.0) executed by each customer shall remain in effect unless any of the following occurs:

L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

5. Termination of Service (Customer) *(Continued)* T/L

a. (i) After the initial 12 month period of service, the customer or the Aggregator provides a 30 day prior written request to the Company to cancel CAT service to the customer;

(ii) The customer or the Aggregator ceases operation;

(iii) The customer terminates all service from the Company at the meter location;

(iv) The Aggregator provides a 30 day prior written notice to the Company and the customer that CAT service to the customer is being terminated by the Aggregator due to the customer's failure to pay for services rendered to the customer by the Aggregator;

(v) The Company terminates service to the Aggregator for failure to pay for services rendered to the Aggregator by the Company by notifying the Aggregator and all customers served by the Aggregator;

(vi) Any party files for, or is forced into bankruptcy proceedings;

(vii) There is a regulatory or other legislative change which impacts an Aggregator's right or ability to provide service hereunder; or

(viii) The Aggregator's registration is suspended or revoked by the Commission in accordance with Public Utilities Code Section 983.5(b).

b. If a customer is delinquent in paying charges due to the Company for CAT service or other Company charges, the customer is subject to termination of service pursuant to Rule No. 11 of this California Gas Tariff.

c. If the Utility Authorization for Core Aggregation Transportation Service (Form 881.0) is terminated and the customer continues to receive service from the Company at the same meter location, the customer will be billed by the Company at the otherwise applicable sales rate, including all surcharges, beginning with the next regular billing cycle, unless otherwise agreed to by the Company. L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

5. Termination of Service (Customer) *(Continued)* T

d. After termination of CAT service, the customer must take service under the otherwise applicable sales rate for a minimum of 12 months, unless the customer executes a new Utility Authorization for Core Aggregation Transportation Service (Form 881.0) with a new Aggregator within 90 days of terminating CAT service. L

e. If the customer changes Aggregators and continues to take CAT service, the obligation for payment of the Balancing Account Adjustment specified in Schedule No. GN-T of this California Gas Tariff shall be based on the original date of commencement of CAT service by the customer.

f. If the total annual load of a group of customers served by an Aggregator falls below the minimum 250,000 therms per year requirement to qualify for CAT service, the Aggregator shall have 30 days to secure additional customers and to submit to the Company a Utility Authorization for Core Aggregation Transportation Service (Form 881.0) from each additional customer sufficient to continue to qualify for CAT service.

g. Consistent with Public Utilities Code Section 985(c), Aggregators and the Company may charge for a change in service provider in the event of early termination of service, provided any fee or penalty charged by the supplier associated with the early termination of service, shall be disclosed in the contract of the Aggregator or in the applicable tariff of the Company.

h. Parties remain responsible for any charges associated with CAT service provided prior to cancellation of the Utility Authorization, even if charges are billed after cancellation of the Utility Authorization.

i. Only the Company shall have the authority to physically disconnect or reconnect a customer from the Company's distribution system. Physical disconnection by the Company subject to the Commission's jurisdiction shall occur only in accordance with protocols established by the Commission. In accordance with Public Utilities Code Section 779.2(a), the Company may not disconnect gas service to the Aggregator's customer for the customer's nonpayment of any amount owed by the customer to the Aggregator. L

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

N. OTHER PROCEDURES L

The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain the safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of the supplier. Additionally, the customer and the Company shall comply with any operational conditions or constraints imposed by the upstream pipeline service provider.

O. RULES AND REGULATIONS

Except as qualified in this rule, all other Rules and Regulations of the Company's California Gas Tariff are applicable to Schedule Nos. GN-T, GS-70/GN-70/SLT-70, GS-VIC, and GS-LUZ and are hereby made a part hereof. L

SOUTHWEST GAS CORPORATION
P.O. Box 98510
Las Vegas, Nevada 89193-8510
California Gas Tariff

	1st Revised	Cal. P.U.C. Sheet No. 275.1
Canceling	Original	Cal. P.U.C. Sheet No. 275.1

D

HELD FOR FUTURE USE

	Issued by	Date Filed February 1, 2019
Advice Letter No.	Justin Lee Brown	Effective
Decision No.	Senior Vice President	Resolution No.

T

Rule No. 21
Transportation of Customer-Secured Natural Gas

REDLINED

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS

This Rule describes the general terms and conditions that apply whenever the Company transports Customer-Secured Gas through its system. Customers electing to secure Biomethane Gas from a Biomethane Gas supplier that is also interconnected with the Company's system may only do so if such Biomethane Gas supplier complies with all terms and conditions set forth in Rule No. 22, Biomethane Gas, of this California Gas Tariff.

A. CHARACTER OF SERVICE

1. The basic transportation service rendered under Schedule Nos. GS-70/GN-70/SLT-70, GS-VIC, GS-LUZ, and GN-T shall consist of:

   a. The receipt by the Company for the account of the customer of gas at the interconnection between the Company, and its upstream pipeline supplier [herein called receipt point(s)].

   b. The transportation of the customer's gas through the Company's system for the account of the customer; and

   c. The delivery of the customer's gas after transportation by the Company for the account of the customer at the delivery point(s) into the customer's facility.

2. Core transportation customers in the Company's Southern California service areas, including groups aggregating core loads, will be allocated a pro rata share of the Commission regulated gas storage services that are available to the Company. The Company will inform the customer or Aggregator of the monthly and daily storage entitlement available to that customer or group.

   The Company's Southern California core transportation customers may inject gas into storage from April 1 to October 31 and may withdraw gas from storage from November 1 to March 31. The customer must inform the Company of the customer's storage injection schedule by the 23rd day of the month prior to actual gas injection. Daily storage injection nominations may not exceed ~~110%~~ 108 percent of the month's average daily storage injection quantity. Customers are not required to provide a monthly storage withdrawal nomination, but must provide the Company an estimate of the quantity expected to be withdrawn each month. Daily nominations for storage injections and withdrawals require a 48 hour advance notice.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

b. Nominations received after a deadline will be processed for the following cycle with the exception that late Cycle 5 Nominations will not be processed. The Company will confirm the ~~volumes~~ quantities nominated for Cycle 1 (Timely Nominations) through all five cycles, regardless of upstream cuts in scheduled quantities, unless the Company receives a revised Nomination from the responsible party for any subsequent cycle.

c. Intraday Nominations will replace existing Standing Nominations only for the duration of the flow day requested.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

d. Balancing quantities must be separately identified in the Nomination. The Company shall determine and notify the customer if there is sufficient operating flexibility to schedule such quantities. The Company will only accept balancing quantities for Cycle 1 Nominations.

e. Nominations for multiple customers must specify the quantity of gas to be scheduled at each of the Company's receipt points with its upstream pipeline(s). The customer or Agent must specify, prior to the flow day, the method to be used by the Company for allocating imbalances among individual customers. If the allocation method is not specified prior to the flow day, the Company will allocate any imbalances pro rata from the Cycle 1 Nomination.

3. It shall be the customer's, the customer's agent, or, for core customers aggregating load, the Aggregator's obligation to make arrangements with the Company and other parties for delivery of gas into the Company's upstream pipeline suppliers' systems and for receipt by customer of gas after transportation to the point(s) of delivery. The customer, agent or Aggregator shall be obligated to provide dispatching and operating coordination with the Company and allow the Company access to appropriate charts and records. Such arrangements must be satisfactory to the Company.

4. The customer shall cause deliveries into the Company's system of ~~volumes~~ quantities to be transported hereunder to be made at approximately a uniform daily rate and based on historical use where appropriate. On any gas day, the Company may refuse to accept quantities of gas that result in fluctuations in excess of 10 percent from the ~~volumes~~ quantities transported during the previous gas day. Fluctuations in excess of 10 percent shall only be allowed if prior approval has been obtained from the Company's ~~dispatcher~~ Gas Scheduling Department.

5. Upon request of the Company, the customer shall from time to time submit its best estimates of the daily, monthly and annual ~~volumes~~ quantities of gas to be transported, including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

C. QUANTITIES OF GAS *(Continued)*

6. Customers must endeavor to schedule supplies at the Company's receipt points that match the customer's daily demands. Balancing of thermally equivalent ~~volumes~~ quantities of gas received and delivered shall be achieved as nearly as feasible ~~on a~~ daily ~~basis, taking into account,~~ considering the customer's right, subject to the Company's approval, to vary receipts and deliveries within specified limits. ~~Deliveries~~ Customer's deliveries or metered quantities shall be those ~~volumes~~ quantities which have passed the point(s) of delivery as determined by the Company's meter.

a. Imbalances

The Daily Imbalance is defined as the difference between the customer's daily transportation quantities scheduled for burn and the customer's daily metered quantity, including the effect of any adjustment for cycle billing. Any Daily Imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily period. Daily Imbalances established in excess of the applicable Daily Tolerance Band, including days when the Company has issued an Operational Flow Order, will be subject to the Noncompliance Charge(s) specified in Section C.6.c.iii and Excess Imbalance charges specified in Section E. of this Rule.

The Monthly Imbalance is defined as the difference between the customer's monthly transportation quantities scheduled for burn and the customer's monthly metered quantity, adjusted for any previous Monthly Imbalances, and including any adjustment for cycle billing. Monthly Imbalances established in excess of the applicable Monthly Operating Window will be subject to the Excess Imbalance charges specified in Section E. of this Rule.

The Cumulative Monthly Imbalance is the customer's Monthly Imbalance that remains after the Monthly Imbalance Trading Period, pursuant to Section D. of this Rule, is complete. Except for core customers aggregating load, any Cumulative Monthly Imbalance shall be carried forward to the next calendar month and shall be considered first through the meter during the next calendar month. Cumulative ~~imbalances~~ Monthly Imbalances for core customers aggregating load shall be carried forward to the second following calendar month and shall be considered first through the meter during the second following calendar month.

~~7.~~ Pursuant to Section D. of this Rule, ~~T~~the customer may elect to offset any ~~imbalance~~ Monthly Imbalance against: (1) ~~imbalances~~ Monthly Imbalances created by other customers of the Company; (2) in the case of core customers, the customer's or core aggregator's available storage account capacity or inventory for the Company's Southern California service area, if sufficient; or (3) ~~imbalances~~ Monthly Imbalances created by customers served directly by Southern California Gas Company for customers in the Company's Southern California service area. Such offsets must be accomplished prior to the end of the authorized trading period for a month. All trading of imbalances shall be conducted in accordance with Sections D and E of this ~~rule~~Rule.

Customers may not use Monthly Imbalance Trading to offset Daily Imbalances of Daily Noncompliance Charges(s).

b. Daily Balancing

Customers are provided a Daily Tolerance Band under which the customer's Daily Imbalance may not be greater or less than plus or minus 25 (Daily Tolerance Band Percentage) of the customer's daily transportation quantities scheduled for burn. The Daily Tolerance Band and Daily Tolerance Band Percentage of plus or minus twenty-five-percent is subject to the Company's adjustment downward pursuant to Section C.6.c herein.

c. Operational Flow Order (OFO)

The purpose of an OFO is to protect system integrity, manage upstream resources, or ensure that Company operational conditions comply with upstream pipeline operational requirements. The following conditions apply to the Company's issuance of OFOs.

(i) The Company will issue and implement an OFO with as much notice as possible before 9:00 a.m. PCT on the day prior to the day of gas flow; however, the Company reserves the right to issue or modify an OFO at any time. The Company will provide notice to customers of an OFO event, or changes during an OFO event electronically or by other means mutually acceptable to the Company and the Customer. The notice will contain, at a minimum: (1) the starting time of the OFO, (2) the OFO Stage and Daily Tolerance Band Percentage from Section C.6.c.iii. of this Rule, (3) the OFO duration, (4) the extent of the OFO (system wide, local, or customer specific), (5) the reason(s) for the OFO and (6) if not readily available through other Company sources, the prior day's Btu conversion factor. The Company reserves the right to issue an OFO for multiple consecutive days under one notice based on the prevailing conditions on its system or the conditions present on upstream pipelines. The Company reviews those conditions daily and, using its sole discretion, may cancel the multiple consecutive day OFO when system conditions allow.

(ii) If an OFO is issued or modified after the start of a gas day contained in the OFO, the Company will make a good faith effort to notify customers at least one hour prior to an Intraday Nomination deadline as set forth in Section C.2. of this Rule. When an OFO is issued or modified after the start of a gas day contained in the OFO, the Company will prorate the Daily Tolerance Band based on the number of hours each Daily Tolerance Band was effective during the day.

(iii) While an OFO is in effect, the customer's Daily Imbalance may not be greater or less than plus or minus the Daily Tolerance Band Percentage specified in the OFO notice multiplied by the customer's daily transportation quantities scheduled for burn (or as prorated per Section C.5.c.ii of this Rule), otherwise the customers will be subject to the applicable Noncompliance Charge. The possible Daily Tolerance Band Percentages and Noncompliance Charge by OFO Stage are:

OFO Stage	Daily Tolerance Band %	Noncompliance Charge
No OFO	+/- 25%	$0.00/therm
1	+/- 10%	$0.50/therm
2	+/- 5%	$2.50/therm
3	+/- 0%	$5.00/therm

Prior to the issuance of an OFO, the Company may issue, but is not required to issue, a "Hold Burn to Schedule Quantities" notice requesting customers to match their daily metered quantities and scheduled quantities. An OFO event may begin with a Stage 1 notice; however, an OFO event, and associated Noncompliance Charge(s), may begin at any Stage the Company deems necessary. After the Company notices an OFO event, it may subsequently evaluate the Stage of the OFO and modify the OFO Stage and provide notice to customers of the change. Further the Company may subject a specific customer or specific group of customers to an elevated OFO Stage if those customer(s) do not comply with prior requests to balance daily scheduled quantities with daily metered quantities. The Company will only subject a specific customer or specific group of customers to an elevated OFO Stage for the period those customer(s) do not balance daily scheduled quantities with daily metered quantities.

(iv) For customers having meters monitored by telemetry equipment, the Company will not assess Noncompliance Charges during an OFO event based on estimated daily usage.

D. TRADING ~~OF~~ MONTHLY IMBALANCE QUANTITIES

The customer may elect to offset ~~an imbalance~~ Monthly Imbalance by identifying and reaching an agreement with one or more transportation customers in the Company's Southern California, Northern California, or South Lake Tahoe service areas, as applicable, that have an established ~~imbalances~~ Monthly Imbalance in an opposite direction. Customers may not trade ~~imbalances~~ Monthly Imbalances between the Company's Southern California and Northern California/South Lake Tahoe service areas. ~~Alternatively, customers~~ Customers in the Company's Southern California service area may also identify and reach agreement with transportation customers served directly by Southern California Gas Company, subject to authorization by the Company. Core customers, including customers aggregating core loads, may also offset ~~imbalances~~ Monthly Imbalances with available storage account quantities held by that customer or group of customers for the Company's Southern California service area, if sufficient. Customers that agree to trade ~~imbalances~~ Monthly Imbalances will be subject to the following conditions:

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

D. TRADING ~~OF~~ MONTHLY IMBALANCE QUANTITIES *(Continued)*

1. Customers will be entitled to trade their entire ~~Cumulative~~ Monthly Imbalance for a given month.
2. Trading of ~~imbalance~~ Monthly Imbalance quantities by customers may begin at 7:00 a.m. Pacific Clock Time on the 25th calendar day in the month of notification and must be completed by 3:00 p.m. Pacific Clock Time of the 30th day of the month in which the customer's imbalance statement is rendered. During the month of February, the trading period begins at 7:00 a.m. Pacific Clock Time on the 23rd calendar day of the month and ends at 3:00 p.m. Pacific Clock Time on the 28th calendar day of the month. If the end of the trading period falls on a weekend or holiday, the prior business day shall be the last day for trading to occur.
3. Trading of ~~imbalance~~ Monthly Imbalance quantities ~~may~~ shall only reduce a customer's imbalance toward, but not beyond, a zero ~~imbalance~~ Monthly Imbalance level. A customer may not trade to establish ~~an imbalance~~ a Monthly Imbalance in the opposite direction of the customer's original ~~imbalance~~ Monthly Imbalance.
4. ~~Cumulative~~ Monthly Imbalances for customers with multiple meters will be determined by aggregating all meters included under a particular transportation service agreement. Customers with multiple meters ~~will~~ shall not ~~be allowed to~~ trade ~~imbalances~~ Monthly Imbalances based on individual meters or sales accounts.
5. The customer is solely responsible for contacting other transportation customers of the Company or of Southern California Gas Company, as applicable, to explore opportunities for trading ~~imbalances~~ Monthly Imbalances. The customer is also solely responsible for any financial arrangements between trading partners occurring as a result of the completion of an imbalance trade. The Company assesses its transportation ~~volume~~ quantity charges based on the transportation billing quantities, adjusted for any ~~volumes~~ quantities traded pursuant to this Section.
6. Customers wishing to execute a trade of ~~imbalance~~ Monthly Imbalance quantities must submit an Imbalance Trading (Form No. 880.0SCA for Southern California service area customers or Form No. 880.00NCA for Northern California and South Lake Tahoe service area customers) to the Company by the ~~imbalance~~ Monthly Imbalance trading deadline. Such form shall be directed to a location and via a method specified by the Company. The Company will review, and approve as appropriate, all ~~imbalance~~ Monthly Imbalance trading requests submitted by customers. Customers whose trade

requests are approved will be sent revised transportation billing worksheets and invoices. The Company will not be responsible for, or involved with, the transfer of gas supply between customers or any related compensatory transactions between customers.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

D. TRADING ~~OF~~ MONTHLY IMBALANCE QUANTITIES *(Continued)*

7. In the event a Southern California service area customer is proposing ~~an imbalance~~ a Monthly Imbalance trade with a customer served directly by Southern California Gas Company, the Company will act as the trading partner with the Southern California Gas Company customer on behalf of the Company's customer. Such trade will be subject to prior authorization by the Company and Southern California Gas Company tariff provisions.

8. For the Company's Southern California service area, except during any period of system curtailment of core service as described in Rule No. 20 of this California Gas Tariff, core transportation customers, including those customers aggregating core loads, may use their available storage inventory capacity and quantities to: (1) offset the customer's own transportation imbalances; or (2) trade with other core customers served by the Company for their transportation imbalances. Core transportation customers may not trade storage capacity or quantities with customers served directly by Southern California Gas Company. Core customers trading imbalances with storage service must have sufficient capacity or inventory during the month the imbalance is created and at the time the trade is completed.

E. PAYMENT FOR EXCESS IMBALANCES ~~BETWEEN GAS RECEIVED AND GAS DELIVERED~~

1. After the imbalance trading period, the customer's Cumulative Monthly Imbalance is the difference between actual monthly ~~deliveries~~ scheduled quantities and monthly metered ~~usage~~ quantity, adjusted for any previous ~~imbalances~~ Monthly Imbalances, ~~will be the customer's Cumulative Imbalance~~ including any adjustment for cycle billing and Monthly Imbalance trades. ~~Cumulative Imbalances at the end of the billing period within~~ Customers receive Monthly Tolerance Band equal to plus or minus ~~10~~ eight percent of the total metered gas ~~usage~~ quantity for a month. ~~will be allowed without penalty. Incremental imbalances~~ Cumulative Monthly Imbalances within the Monthly Tolerance Band will be allowed without incurring an Excess Imbalance Charge. Cumulative Monthly Imbalances in excess the of ~~plus or minus 10 percent of total metered gas usage~~ Monthly Tolerance Band are defined as Excess Imbalance~~s~~ quantities and incur a Positive or Negative Excess Imbalance Charge.

As defined in Section C.6.a of this Rule, the customer's Daily Imbalance is the difference between the customer's daily transportation quantities scheduled for burn and the customer's daily metered quantity, including the effect of any adjustment for cycle billing. Daily Imbalances at the end of the billing period within each day's Daily Tolerance Band will be allowed without an Excess Imbalance Charge. Daily Imbalances in excess of each day's Daily Tolerance Band are defined as Excess Imbalance quantities and incur a Positive or Negative Excess Imbalance Charge.

In addition to the charges payable under the customer's otherwise applicable rate schedules, ~~monthly imbalance volumes~~ Excess Imbalance quantities shall be billed as follows:

a. Positive Excess Imbalance

~~When transportation volumes received by the Company are greater than 110 percent of the customer's metered usage and the Excess Imbalance is not eliminated through imbalance trading, the lower of the following shall be applied to the Excess Imbalance and credited to the customer's bill:~~

When the customer's Daily Imbalance is greater than the customer's Daily Tolerance Band a Daily Positive Excess Imbalance exists. When the Customer's Cumulative Monthly Imbalance exceeds eight-percent of the customer's total metered gas quantity for a month, a Monthly Positive Excess Imbalance exists. Daily and Monthly Positive Excess Imbalance quantities shall be retained by the Company and the excess imbalance eliminated after the customer's bill is credited with the lower of the following gas costs for each therm of the Excess Imbalance in addition to the customer's applicable transportation quantity charge:

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

E. PAYMENT FOR EXCESS IMBALANCES ~~BETWEEN GAS RECEIVED AND GAS DELIVERED~~ *(Continued)*

1. a. Positive Excess Imbalance *(Continued)*

(i) Fifty percent of the otherwise applicable Gas Cost or Procurement Charge as stated in the Statement of Rates; or

(ii) The lowest incremental cost of gas purchased by the Company during the same month.

b. Negative Excess Imbalance

~~When transportation volumes received by the Company are less than 90 percent of the customer's metered usage and the Excess Imbalance is not eliminated through imbalance trading, a balancing service fee shall be assessed on the customer's Excess Imbalance as follows:~~

When the customer's Daily Imbalance is less than the customer's Daily Tolerance Band a Daily Negative Excess Imbalance exists. When the Customer's Cumulative Monthly Imbalance is less than eight-percent of the customer's total metered gas usage for a month, a Monthly Negative Excess Imbalance exists. Negative Excess Imbalances shall be eliminated after the customer is billed the higher of the following two gas costs for each therm of the Excess Imbalance in addition to the customer's applicable transportation quantity charge:

(i) For billing periods during which customers have not been curtailed, the Negative Excess Imbalance shall be assessed the higher of the following ~~charges~~ gas costs:

(a) 150 percent of the otherwise applicable Gas Cost or Procurement Charge as stated in the Statement of Rates of this California Gas Tariff; or

(b) The highest incremental cost of gas purchased by Southwest during the same month.

(ii) For billing periods during which customers have been curtailed, the Company shall assess customers a balancing service fee of $1.00

per therm to applicable imbalances. Balancing service fees shall be assessed to core customers when any core customers have been curtailed. Noncore customers shall be assessed balancing service fees when noncore customers of an equal or greater priority class have been curtailed. The balancing service fee shall be applicable to the entire Negative Excess Imbalance established by a customer during which period the curtailment occurred.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

E. PAYMENT FOR EXCESS IMBALANCES ~~BETWEEN GAS RECEIVED AND GAS DELIVERED~~ *(Continued)*

2. If a customer is assessed ~~an imbalance~~ a charge pursuant to Section E.1.a or E.1.b. of this Rule, based on Company billing information that is later determined to be in error, the customer shall be credited an amount equal to the imbalance charges not assessable based on the corrected billing information. If a customer is not assessed ~~an imbalance~~ a charge pursuant to Section E.1.a or E.1.b. of this Rule, based on Company billing information that is later determined to be in error, the customer shall be billed for any applicable imbalance charges determined to be assessable based on the revised billing information.

3. If imbalances between nominations and deliveries of a customer's gas to the Company's upstream pipeline suppliers cause the Company to purchase gas it would not have otherwise purchased and/or to incur additional costs not covered by the Company's applicable gas tariff rate(s), the customer(s) causing such costs will be subject to a surcharge equal to the additional cost not recovered through the gas tariff rate(s).

4. The Company shall not be required to perform or continue service on behalf of any customer that fails to comply with the terms contained in this Rule, applicable rate schedule, and the terms of the customer's Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any customer under any provision of this Rule, applicable rate schedule, or the Service Agreement; provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

5. ~~All penalty revenues~~ Noncompliance and Excess Imbalance Charges will be credited to Account No. 191, Unrecovered Purchased Gas Costs.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

F. MEASUREMENT OF CUSTOMER-SECURED GAS

1. All quantities referred to in Sections C and D of this Rule shall be provided as therms (100,000 British thermal units).

2. The Company or its agent shall calibrate and maintain meters and related equipment at intervals specified by the Company. The customer shall have access to the Company's meters and shall be allowed to inspect the meters and charts or other records of measurement at any reasonable time. If any inaccuracy is discovered, it will be handled as described in Rule No. 17 of this California Gas Tariff.

3. If the customer's gas is commingled with other gas at the receipt point(s) or at the point(s) of delivery, the scheduling arrangements and the Company's records shall include procedures for the division of the total quantity at such points. Other than advance sales service nominations made by partial requirements customers, gas transported under Schedule No. GN-T shall be deemed to be delivered first through the meter.

4. The Company's Supplier may be receiving gas from various sources. Where the customer's shipper acts as the Company's Supplier's measuring agent, the customer shall accept as accurate the customer's Shipper's declaration of the quantity of gas it has delivered to the Company for the customer's account. Where gas is measured by the Company, the customer shall accept as accurate the Company's measurement of gas.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

G. BILLING AND PAYMENT

1. The Company shall render a bill to the customer, agent or Aggregator, whichever is applicable, on or before the 10th day of each month. D

2. For customers aggregating core loads, any imbalance charges pursuant to Section E of this Rule will be billed to the customer's Aggregator. The customer shall be ultimately responsible for all billings. Additional billing and payment terms and conditions for core aggregation are set forth in Section M of this Rule.

3. Transportation customers that are not part of core aggregating groups shall pay on or before the 25th day of each month for the service rendered hereunder during the preceding month as billed by the Company. Such payment shall be made in immediately available funds on or before the due date to a depository designated by the Company. If the 25th falls on a day that the designated depository is not open in the normal course of business to receive the customer's payment, then payment shall be made on or before the last business day preceding the 25th day that such depository is available. If presentation of a bill to the customer by the Company is delayed after the 10th day of the month, then the time of payment shall be extended accordingly unless the customer is responsible for such delay.

4. The customer, customer's agent or Aggregator shall reimburse the Company for any charges rendered or billed to the Company by its Supplier(s), by any other upstream transporters and gas gatherers, or by any political subdivisions of the State of California, either before or after termination of the Service Agreement, which the Company, in its sole good faith opinion, determines have been incurred because of the transportation of gas for the customer's account hereunder and should, therefore, appropriately be borne by the customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for ~~volumes~~ quantities, Gas Technology Institute surcharges, penalty charges, and filing fees. The customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the customer.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

G. BILLING AND PAYMENT *(Continued)*

5. Periodically, ~~volume~~ quantity adjustments may be made by the Company's Supplier(s), the customer's agent or the Aggregator. Should resulting adjustments to customer bills be necessary, such adjustments will be applied during the month in which the ~~volumes~~ quantities were delivered to the customer for the purposes of determining the applicability of the provisions of Schedule Nos. GN-T, GS-70/GN-70/SLT-70, GS-VIC, and GS-LUZ of this California Gas Tariff.

H. ESTABLISHING TRANSPORTATION SERVICE

1. Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the customer providing the following information to the Company:

   a. Point(s) of Delivery — Point(s) of delivery by the Company to the customer.

   b. Gas Quantities — The Maximum Daily Quantity (MDQ) applicable to each receipt point(s) and the maximum quantity per day applicable to each point(s) of delivery, and the estimated total quantities to be received and transported over the delivery period stated individually in therms for each receipt point and each point of delivery.

   c. Term of Service —

      (i) Date service requested to commence; and

      (ii) Date service requested to terminate.

   d. Performance — A letter from the customer certifying that the customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Service Agreement. The customer's agent or Aggregator, if any, must be named.

2. Upon receipt of all of the information specified above, the Company shall prepare and tender to the customer for execution a Service Agreement in the form contained in this California Gas Tariff. If the customer fails to execute the Service Agreement within 30 days of the date tendered, the customer's request shall be deemed null and void. A 30-day prior written notice by core aggregation

customers or the respective Aggregator is required for cancellation of a service agreement for Core Aggregation Transportation service.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

K. POSSESSION OF GAS AND RESPONSIBILITY

As between the Company and the customer, the customer shall be deemed to be in control and possession of the gas until it has been delivered to the Company for transportation at the receipt point(s). The Company shall thereupon be deemed to be in control and possession of the gas until the gas shall have been delivered to the customer at the point(s) of delivery, after which the customer shall be deemed to be in control and possession. The customer shall have no responsibility with respect to any gas after it has been delivered to the Company at the receipt point(s) on account of anything which may be done, happen or arise with respect to said gas, until said gas is delivered to the customer at the point(s) of delivery. The Company shall have no responsibility with respect to said gas prior to its delivery to the Company at the receipt point(s) or after its delivery to the customer at the point(s) of delivery, or on account of anything which may be done, happen or arise with respect to said gas prior to such receipt or after such delivery.

L. WARRANTY OF TITLE

The Company accepts gas for the customer's account at the receipt point(s) subject to the understanding that the customer warrants that at will, at the time of delivery of gas to the Company for transportation, have the right to cause delivery of gas to the Company and that it will indemnify the Company and hold the Company harmless from all adverse claims of ~~any and~~ all persons to such gas.

The Company warrants that, at the time of delivery of the transported gas to the customer at the point(s) of delivery, it will not have encumbered the gas in any manner whatsoever from the time the gas is accepted at the receipt point(s) until the gas is delivered to the customer at the point(s) of delivery.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM

The provisions contained in this Section M apply only to those customers participating in the Company's Core Aggregation Transportation (CAT) program. The previous provisions of this Rule No. 21 and Schedule No. GN-T of this California Gas Tariff apply to the CAT program, unless superseded by provisions contained in this Section M. In accordance with Decision (D.) 14-08-043, D.18-02-002, and Public Utilities Code Section 981, unless otherwise exempt, a CAT offering core aggregation transportation service to residential or small commercial customers is required to register with and receive approval from the Commission prior to offering core aggregation transportation service.

1. Enrollment of Customers

a. An agent or third party (Aggregator) who requests transportation service for customers aggregating core loads shall provide to the Company a Utility Authorization for Core Aggregation Transportation Service (Form No. 881.0) executed by the customer identifying each customer's meter location whose load has been aggregated. The Utility Authorization shall grant the Aggregator the authority to act on the customer's behalf; and allow the Company to release information about the customer to the Aggregator. By submission of the signed Utility Authorization, the Aggregator warrants that the customer being enrolled in the CAT program has authorized the Company to release the customer's current and historical information, including current and historical gas consumption information, billing information, and payment information, to that specific Aggregator or its agent.

b. An Aggregator seeking to provide a customer with CAT service will be responsible for compliance with the Commission's verification rules set forth in D.18-02-002.

c. The minimum term for customers electing CAT service is 12 consecutive months.

d. The Company shall tabulate the customer's most recent 12 months' usage and provide the usage history to the Aggregator within 30 days from submittal to the Company by the Aggregator. The Company shall utilize this usage history to establish the Aggregator's Maximum Daily Quantity (MDQ) for any ~~time~~ period.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

e. The Company will process requests from Aggregators to begin service to customers within 90 days of submittal; however, every reasonable effort will be made to begin CAT service for the customer in the month following submittal.

f. Customers taking CAT service must provide 90 days prior written notice to the Company to change Aggregators. A customer who has received CAT service for the minimum term is not required to remain with a newly-elected Aggregator for a minimum term.

2. Storage Allocation and Rights

a. For the Company's Southern California service areas, gas storage inventory injected by Aggregators may not be subjected to encumbrances of any kind. Aggregators will be assigned month-end storage inventory targets by the Company to meet the Company's month-end storage targets and maintain minimum ~~volumes~~ quantities sufficient to meet the Company's peak day and cold year seasonal requirements. Aggregators will not be allowed to withdraw gas in inventory below the month-end targets established by the Company. Gas storage inventory to meet core reliability cannot be used to cure an under-delivery of flowing supplies during an imbalance trading period.

b. During the injection season, flowing supplies scheduled for injection will be delivered first, with all remaining flowing supplies scheduled for delivery to the Company's Southern California distribution system for current month use.

c. Aggregators in the Company's Northern California and South Lake Tahoe service areas are subject to the terms and conditions of the Paiute Pipeline Company's FERC Tariff for all storage activities.

d. When an Aggregator adds a customer or customers to its Group which represents an addition of more than 150,000 therms of storage inventory, a pro rata portion of the existing gas storage inventory will be sold by the Company to the Aggregator at the current month's Procurement Charge as set forth in the currently-effective Schedule No. GCP of this California Gas Tariff. When a customer terminates CAT service which represents a reduction of more than 150,000 therms of storage inventory and returns to the otherwise applicable sales schedule, a pro rata portion of the existing gas storage inventory will be sold by the Aggregator to the Company at the current month's Procurement Charge as set forth in the currently-effective Schedule No. GCP of this California Gas Tariff.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~3. Operational Flow Orders~~

~~At any time, the Company may implement an Operational Flow Order (OFO) to assure that firm interstate nominations and deliveries into the Company's distribution system by Aggregators are equivalent in reliability and quantity to those made by the Company. When an OFO is implemented by the Company, Aggregators will be required to nominate the full contractual MDQ as firm deliveries to the Company's distribution system.~~

~~Failure by the Aggregator to comply with an OFO to deliver the contractual MDQ will result in an OFO Non-Compliance Penalty assessed to the Aggregator. The volume subject to the OFO Non-Compliance Penalty is calculated as the difference between the Aggregator's MDQ and the sum of the Aggregator's scheduled flowing supplies, plus any quantities scheduled for delivery from the Aggregator's storage inventory to the Company's Southern California service area distribution system. Aggregators will be charged $1.00 per therm for all volumes which are not in compliance with an OFO.~~

~~Aggregators will not be penalized for Excess Positive Imbalances established during the OFO period. For the Company's Southern California service area, Aggregators will not be penalized for reduced injection quantities into storage during the OFO period which result in the month-end storage inventory targets not being met, if such reduced injections are authorized by the Company.~~

~~4~~3. Credit & Collection Rights and Obligations

Customers that aggregate core loads will be financially liable for Company intrastate transportation charges, interstate demand charges or surcharges, and other costs allocated to customers by the Commission. The Aggregator will be financially liable for charges related to managing its procurement portfolio on behalf of the customers it serves.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~4~~3. Credit & Collection Rights and Obligations *(Continued)*

a. Establishment of Credit

(i) Application for Service — The Aggregator shall be required to complete a Credit Application (Form 882.0) that includes any financial information needed to establish credit upon initial application for service on an annual basis or whenever the Aggregator's MDQ increases by 25,000 therms per day or more. A non-refundable credit application processing fee of $500 may be charged to offset the cost of determining the Aggregator's creditworthiness. The Company will establish the Aggregator's credit limit based on the creditworthiness evaluation and the Aggregator's MDQ.

The Company shall have the right to request additional financial information on a periodic basis during the Aggregator's participation in the CAT program. In the event the Company determines that a financial change has or could adversely affect the creditworthiness of the Aggregator or if the requested financial information is not provided, the Company may terminate the Aggregator's participation.

(ii) Security Deposit — Aggregators may submit a security deposit in lieu of the creditworthiness evaluation to qualify for participation and/or to increase their MDQ. The amount of the deposit may be in the form of cash, letter of credit, surety bond, guarantee, or other form of security acceptable to the Company.

Required deposits are due and payable upon demand prior to participation in the CAT program or the effective date of the change in the Aggregator's MDQ, and applicable. Participation will be subject to termination if deposits are not paid within 15 calendar days after demand.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~4~~3. Credit & Collection Rights and Obligations *(Continued)*

b. Calculation of Creditworthiness Requirements (CWR)

The calculation of the amount of the deposit and the credit limit will take into account the Aggregator's MDQ and the nature of services for which the Aggregator bills its customers. This CWR shall be calculated as follows:

(i) Aggregator Bills Customers For Gas Only:

CWR1 = 120 days x MDQ x 150% Annual Average Procurement Charge

(ii) Aggregator Bills All Customers For Gas and Transportation Charges:

CWR2 = CWR1 + (75 days x MDQ x Average Transportation Rate)

c. Other Options

An Aggregator may select the following options to reduce its CWRs:

(i) Guaranteed Deliveries — The Aggregator may guarantee weekly delivery of gas equal to a percentage of projected usage acceptable to the Company and the Aggregator. By satisfying the guaranteed delivery percentage, an Aggregator can reduce its CWR by the percentage of guaranteed deliveries.

(ii) Storage Collateral — For the Company's Southern California service area, an Aggregator may reduce its CWR by maintaining a prescribed ~~volume~~ quantity of gas in storage in addition to gas stored to meet its core reliability requirements. The prescribed ~~volume~~ quantity specified by the Aggregator and the Company will reduce the number of days used in the calculation of the CWR by the prescribed ~~volume~~ quantity divided by the Aggregator's MDQ.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

4~~3~~. Credit & Collection Rights and Obligations *(Continued)*

c. Other Options *(Continued)*

(iii) Accelerated Payments / Immediate Payment For Services Rendered — If the Aggregator bills its customers for Company transportation charges, then the Aggregator may reduce its CWR by paying the Company for transportation service on a weekly basis. The weekly payments will be estimated based on the average retail core transportation charge in effect and the historical monthly usage of the Aggregator's customers. Weekly payments reduce the number of days used in calculating the transportation component of the Aggregator's CWR from 75 days to 22 days.

d. Billing and Payment Terms

The Company may allow or require the Aggregator to bill end-use customers for the Company's transportation charges and the Aggregator may allow the Company to bill end-use customers for the Aggregator's commodity charges, if available. All customers in a given Group, however, must elect the same billing option for all applicable charges.

Upon request, core aggregation customers shall be permitted to review only those billings that the Company has presented to the customer's Aggregator in conjunction with service to the customer's account. The Company shall forward a copy of all transactions between the Company and the customer's Aggregator to customers requesting such information about their account.

When the customer is billed directly by the Company for charges, the Company will forward customer usage to the Aggregator on a timely basis.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

4~~3~~. Credit & Collection Rights and Obligations *(Continued)*

d. Billing and Payment Terms *(Continued)*

(i) Weekly Billing — For an Aggregator who bills end-use customers for Company transportation charges~~, in order~~ to eliminate the cash lag in the current month-end billing of Company transportation charges and reduce the Aggregator's CWRs, weekly summary billing of customer accounts may be implemented, if available. Interstate transportation charges and imbalance billing and notification will occur monthly.

(ii) Payment Terms — Bills are due and payable on presentation. All payments will be done by wire transfer unless otherwise agreed to by the Company.

Bills will be considered delinquent if not paid within 15 days of the mailing date. Delinquency notices will be mailed to the Aggregator and may be mailed to each of the Aggregator's customers. If the bill is not paid within seven days of the issuance of the delinquency notice, the Aggregator's participation will be subject to termination by the Company, the individual Group customers will be billed for a pro rata share of outstanding charges and normal collection procedures will be followed in accordance with the Company's applicable rules.

(iii) Late Payment — If the bill is not paid within seven days of the issuance of the delinquency notice, then:

(a) A seven day notice may be mailed to the Aggregator and its customers may be advised of such notice. If the charges in the notice remain unpaid, participation in the program is subject to termination. The Aggregator and individual aggregating customers remain responsible for all charges incurred under the CAT program, even if such charges are incurred after the termination becomes effective.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~4~~3. Credit & Collection Rights and Obligations *(Continued)*

d. Billing and Payment Terms *(Continued)*

(iii) Late Payment *(Continued)*

(b) The outstanding balance will be subject to late payment fees and collection procedures in accordance with the Company's applicable Rules in this California Gas Tariff.

(c) For the Company's Southern California service area, an Aggregator will not be able to increase its MDQ, add new customers, or trade, sell or withdraw any gas in storage until late payment is cured.

If an Aggregator pays late three or more times by seven days or less, or pays late once by more than seven days in any contiguous 12 month period, then, in addition to the above, the Aggregator will lose its "good payment" status defined below and the Company may request an additional security deposit or escrow agreement.

(iv) Good Payment History — In order to establish a good payment history, the Aggregator must pay each bill in full within 15 days after transmittal. An Aggregator's CWRs will be reduced by ~~2~~ two percent, retroactive to the date program participation was established, for every 12 months of good payment history.

If at any time there has been a detrimental change in the financial condition of the Aggregator or good payment history is lost, the Company, at its sole discretion, may reestablish the Aggregator's CWRs.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~4~~3. Credit & Collection Rights and Obligations *(Continued)*

d. Billing and Payment Terms *(Continued)*

(v) Termination of Service (Aggregator) — Service may be terminated if payment is not received within seven days of the issuance of a delinquency notice, the Company receives any notification that the Aggregator has filed or will be filing any type of bankruptcy or is closing its business.

Upon termination of an Aggregator's participation, the following shall apply:

(a) The Company will send notices of termination to the Aggregator, each of the Aggregator's customers, and to the Commission.

(b) The Company will establish an escrow agreement account for collections of outstanding customer payments.

(c) Any gas that has been delivered into the Company's system on behalf of the Aggregator, including gas in storage, will be used to offset any immediate imbalances.

(d) The Aggregator will lose its right to a ~~10~~ eight percent tolerance for monthly transportation imbalances and will be required to trade toward a zero imbalance.

(e) All fees, charges and other obligations of the Aggregator to the Company shall be immediately due and payable and shall be subject to the Company's approved late payment charges.

At the time of termination, the Company shall apply any deposit held on the Aggregator's behalf to recoup unpaid bills. If the deposit does not adequately cover the charges owed by the Aggregator, the customers represented by the Aggregator will be liable for any applicable outstanding charges excluding procurement management charges. The Aggregator shall also be liable for all costs, expenses and attorney's fees incurred by the Company as a result of the Aggregator's termination or default.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~4~~3. Credit & Collection Rights and Obligations *(Continued)*

d. Billing and Payment Terms *(Continued)*

(vi) Billing Disputes — If a Core Aggregation customer or the Aggregator disputes a bill from the Company, the disputed amount will be deposited with the Commission pending resolution of the dispute under the existing Commission procedures. If a Core Aggregation customer disputes a bill from their Aggregator, the customer will remain obligated to pay Company charges in a timely manner; the Aggregator shall not withhold payment of any such Company charges pending resolution of any such disputes.

A customer of an Aggregator shall have a reasonable opportunity to have the customer's meter tested to ensure the reasonable accuracy of the meter. In accordance with Public Utilities Code Section 985(f), in the event of a billing dispute, a customer may ask the Company to test the customer's meter to ensure reasonable accuracy of the meter. The cost of this meter test shall be in accordance with Rule No. 17 of this California Gas Tariff.

No termination of service will occur for a dispute while the Commission is hearing the matter.

~~5~~4. Consumer Complaints regarding Aggregators

In accordance with D.14-08-043, D.18-02-002, and Public Utilities Code Section 983, the Commission shall accept, compile and attempt to informally resolve consumer complaints regarding Aggregators: http://consumers.cpuc.ca.gov/californiacares/.

~~6~~5. Termination of Service (Customer)

a. The Utility Authorization for Core Aggregation Transportation Service (Form 881.0) executed by each customer shall remain in effect unless any of the following occurs:

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~6~~5. Termination of Service (Customer) *(Continued)*

a. (i) After the initial 12 month period of service, the customer or the Aggregator provides a 30 day prior written request to the Company to cancel CAT service to the customer;

(ii) The customer or the Aggregator ceases operation;

(iii) The customer terminates all service from the Company at the meter location;

(iv) The Aggregator provides a 30 day prior written notice to the Company and the customer that CAT service to the customer is being terminated by the Aggregator due to the customer's failure to pay for services rendered to the customer by the Aggregator;

(v) The Company terminates service to the Aggregator for failure to pay for services rendered to the Aggregator by the Company by notifying the Aggregator and all customers served by the Aggregator;

(vi) Any party files for, or is forced into bankruptcy proceedings;

(vii) There is a regulatory or other legislative change which impacts an Aggregator's right or ability to provide service hereunder; or

(viii) The Aggregator's registration is suspended or revoked by the Commission in accordance with Public Utilities Code Section 983.5(b).

b. If a customer is delinquent in paying charges due to the Company for CAT service or other Company charges, the customer is subject to termination of service pursuant to Rule No. 11 of this California Gas Tariff.

c. If the Utility Authorization for Core Aggregation Transportation Service (Form 881.0) is terminated and the customer continues to receive service from the Company at the same meter location, the customer will be billed by the Company at the otherwise applicable sales rate, including all surcharges, beginning with the next regular billing cycle, unless otherwise agreed to by the Company.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS
(Continued)

M. CORE AGGREGATION TRANSPORTATION (CAT) PROGRAM *(Continued)*

~~6~~5. Termination of Service (Customer) *(Continued)*

d. After termination of CAT service, the customer must take service under the otherwise applicable sales rate for a minimum of 12 months, unless the customer executes a new Utility Authorization for Core Aggregation Transportation Service (Form 881.0) with a new Aggregator within 90 days of terminating CAT service.

e. If the customer changes Aggregators and continues to take CAT service, the obligation for payment of the Balancing Account Adjustment specified in Schedule No. GN-T of this California Gas Tariff shall be based on the original date of commencement of CAT service by the customer.

f. If the total annual load of a group of customers served by an Aggregator falls below the minimum 250,000 therms per year requirement to qualify for CAT service, the Aggregator shall have 30 days to secure additional customers and to submit to the Company a Utility Authorization for Core Aggregation Transportation Service (Form 881.0) from each additional customer sufficient to continue to qualify for CAT service.

g. Consistent with Public Utilities Code Section 985(c), Aggregators and the Company may charge for a change in service provider in the event of early termination of service, provided any fee or penalty charged by the supplier associated with the early termination of service, shall be disclosed in the contract of the Aggregator or in the applicable tariff of the Company.

h. Parties remain responsible for any charges associated with CAT service provided prior to cancellation of the Utility Authorization, even if charges are billed after cancellation of the Utility Authorization.

i. Only the Company shall have the authority to physically disconnect or reconnect a customer from the Company's distribution system. Physical disconnection by the Company subject to the Commission's jurisdiction shall occur only in accordance with protocols established by the Commission. In accordance with Public Utilities Code Section 779.2(a), the Company may not disconnect gas service to the Aggregator's customer for the customer's nonpayment of any amount owed by the customer to the Aggregator.

EXHIBIT B

Balance Sheet as of September 30, 2018
Statement of Income for the three, nine and twelve months then ended

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)
(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Utility plant:		
Gas plant	$ 6,928,471	$ 6,629,644
Less: accumulated depreciation	(2,275,376)	(2,231,242)
Construction work in progress	216,735	125,248
Net utility plant	4,869,830	4,523,650
Other property and investments	125,204	119,114
Current assets:		
Cash and cash equivalents	49,065	37,946
Accounts receivable, net of allowances	70,094	119,748
Accrued utility revenue	34,600	78,200
Income taxes receivable	46,250	—
Deferred purchased gas costs	—	14,581
Prepaids and other current assets	202,705	153,771
Total current assets	402,714	404,246
Noncurrent assets:		
Goodwill	10,095	10,095
Deferred charges and other assets	403,505	425,564
Total noncurrent assets	413,600	435,659
Total assets	$ 5,811,348	$ 5,482,669
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock	$ 49,112	$ 49,112
Additional paid-in capital	1,041,310	948,767
Accumulated other comprehensive income (loss), net	(51,779)	(47,073)
Retained earnings	681,284	659,193
Total Southwest Gas Corporation equity	1,719,927	1,609,999
Long-term debt, less current maturities	1,818,621	1,521,031
Total capitalization	3,538,548	3,131,030
Current liabilities:		
Short-term debt	9,000	191,000
Accounts payable	98,956	158,474
Customer deposits	68,100	69,781
Income taxes payable	—	4,971
Accrued general taxes	51,734	43,879
Accrued interest	30,481	17,171
Deferred purchased gas costs	93,023	6,841
Payable to parent	380	194
Other current liabilities	111,658	108,785
Total current liabilities	463,332	601,096
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits, net	485,072	445,243
Accumulated removal costs	322,000	315,000
Other deferred credits and other long-term liabilities	1,002,396	990,300
Total deferred income taxes and other credits	1,809,468	1,750,543
Total capitalization and liabilities	$ 5,811,348	$ 5,482,669

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Thousands of dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2018	2017	2018	2017	2018	2017
Continuing operations:						
Gas operating revenues	$ 217,523	$ 213,059	$ 987,515	$ 935,823	$ 1,354,000	$ 1,276,308
Operating expenses:						
Net cost of gas sold	49,903	45,539	319,101	261,839	412,307	334,888
Operations and maintenance	104,657	97,359	312,055	298,827	404,549	393,632
Depreciation and amortization	47,924	46,194	145,549	153,643	193,828	212,693
Taxes other than income taxes	15,036	14,046	44,959	43,325	59,580	56,221
Total operating expenses	217,520	203,138	821,664	757,634	1,070,264	997,434
Operating income	3	9,921	165,851	178,189	283,736	278,874
Other income and (expenses):						
Net interest deductions	(20,399)	(17,421)	(59,803)	(51,622)	(77,914)	(69,464)
Other income (deductions)	836	(1,775)	(5,861)	(5,824)	(6,425)	(9,200)
Total other income and (expenses)	(19,563)	(19,196)	(65,664)	(57,446)	(84,339)	(78,664)
Income (loss) from continuing operations before income taxes	(19,560)	(9,275)	100,187	120,743	199,397	200,210
Income tax expense (benefit)	(5,890)	(5,251)	20,886	38,307	45,714	65,887
Income (loss) from continuing operations	(13,670)	(4,024)	79,301	82,436	153,683	134,323
Discontinued operations - construction services:						
Income before income taxes	—	—	—	—	—	21,649
Income tax expense	—	—	—	—	—	7,842
Income	—	—	—	—	—	13,807
Noncontrolling interests	—	—	—	—	—	514
Income - discontinued operations	—	—	—	—	—	13,293
Net income (loss)	$ (13,670)	$ (4,024)	$ 79,301	$ 82,436	$ 153,683	$ 147,616

The accompanying notes are an integral part of these statements.