PRELIMINARY STATEMENTS

1. Southwest Gas Corporation (the Company) provides natural gas service within the following counties: San Bernardino, Placer, El Dorado and Nevada. Service is provided in the geographical areas definitively set forth by cross-hatching on the maps of the Company's service areas contained in this California Gas Tariff.

   1A. The following communities are included in the Company's Southern California service area:

Adelanto	Fawnskin	Moonridge
Apple Valley	Helendale	Needles
Barstow	Hesperia	North Barstow
Big Bear City	Hinkley	Oro Grande
Big Bear Lake	Lenwood	Sugarloaf
Bryman	Lockhart	Summit
Calico	Lucerne Valley	Victorville
Daggett	Marianas Ranchos	Yermo

   1B. The following communities are included in the Company's Northern California and South Lake Tahoe service areas:

Agate Bay	Homewood	Sunnyside
Brockway	Kings Beach	Tahoe City
Carnelian Bay	McKinney Bay	Tahoe Donner
Cedar Flat	Meeks Bay	Tahoe Pines
Chambers Lodge	Northstar	Tahoe Vista
Dollar Point	Rubicon Point	Tahoma
Donner Lake	South Lake Tahoe	Talmont
Glenshire	Sugar Pine Point	Truckee

   The Company maintains separate distribution service rates for South Lake Tahoe and the remainder of its Northern California service area as reflected on the Northern California Division and South Lake Tahoe Statement of Rates.

2. DESCRIPTION OF SERVICE

   The types and classes of service rendered are as described in Rule No. 2, as may be further limited or amplified under the section of each rate schedule designated as "Applicability."

PRELIMINARY STATEMENTS
(Continued)

3. PROCEDURE TO OBTAIN SERVICE

Normal procedure for a customer to apply for gas service is to contact the Utility's Customer Business Office and provide the required information in the application for service as shown in Rule No. 3. This application is merely a request for service and does not in itself bind the Utility to provide gas service, except under reasonable conditions, nor does it bind the customer to take gas service for a period longer than 30 days.

4. SERVICE AREA MAPS

The areas identified by cross-hatching on the maps on the following pages delineate the territory described in Paragraph 1, above. However, these maps shall not be considered by the Public Utilities Commission of the State of California or any other public body as final or conclusive determination or establishment of the dedicated area of service, or any portion thereof.

5. CONTINGENT REFUNDS AND RATE REDUCTIONS

Supplier refunds are passed through to the appropriate customer classes in accordance with Section 7F.4 hereof.

6. SYMBOLS IN CONFORMANCE WITH SECTION 491 OF THE PUBLIC UTILITIES CODE

(C) To signify changed listing, rule, or condition which may affect a rate, charge, term or condition;

(D) To signify discontinued material, including a listing, rate, charge, rule or condition;

(I) To signify a rate or charge increase;

(L) To signify material relocated from or to another part of tariff schedules with no change in text, rate, rule or condition.

(N) To signify new material including a listing, rate, charge, rule or condition;

(P) To signify material subject to change under a pending application or advice letter;

(R) To signify a rate or charge reduction; and

(T) To signify a textual change that does not affect a rate, charge, term or condition.

PRELIMINARY STATEMENTS
(Continued)

7. PURCHASED GAS COST BALANCING ACCOUNT (PGA)

7A. PURPOSE

The purpose of the PGA Balancing Account is to balance the actual cost of purchased gas incurred by the Company with the gas costs recovered through the sales rates.

7B. APPLICABILITY

This PGA Provision applies to bills for service under all core sales rate schedules in the Company's California service areas.

7C. REVISION DATE

The Company shall file monthly to adjust gas cost rates as specified in Schedule No. GCP. The Company shall also file as necessary to update the PGA Balancing Account Adjustment. This filing shall be informational only.

7D. PURCHASED GAS COST BALANCING ACCOUNT ADJUSTMENT

The PGA Balancing Account Adjustment shall be determined by dividing the balance in the account by the total volumes of gas estimated to be delivered to core sales customers during the requested amortization period following the revision date.

7E. ACCOUNTING PROCEDURE

Separate accounts will be maintained for the Company's service areas. The Company shall make the following entries to the PGA Balancing Accounts at the end of each month:

1. A debit entry equal to the actual cost of purchased gas for the month.

PRELIMINARY STATEMENTS
(Continued)

7. PURCHASED GAS COST BALANCING ACCOUNT (PGA) *(Continued)*

7E. ACCOUNTING PROCEDURE *(Continued)*

2. A credit entry equal to the revenue from the sale of gas delivered during the month, including the amortization of the previous months' over- or under-collection, excluding adjustments for franchise taxes and uncollectible accounts expense.

3. An entry to record credits from interstate pipeline capacity release activity or inter-divisional capacity transfer activity for the month.

4. An entry to record interest on the PGA Balancing Account balance after entry (1) above, calculated as set forth in Section 12B of these Preliminary Statements.

5. A credit entry equal to an allocated portion of any cash refund, including interest, received by the Utility as a result of an order by the Federal Energy Regulatory Commission (FERC) or the California Public Utilities Commission (CPUC). If required, refunds shall be allocated to core sales and core aggregation customers based on the volume of gas sold to such customers.

PRELIMINARY STATEMENTS
(Continued)

8. INTRASTATE TRANSPORTATION COST ADJUSTMENT MECHANISM (ITCAM)

8A. PURPOSE

The purpose of the ITCAM Balancing Account is to balance recorded upstream intrastate variable transportation cost recovery from both the core and noncore markets with the actual intrastate variable transportation costs incurred by the Company for the upstream transportation of gas on Southern California Gas Company's system.

8B. APPLICABILITY

This ITCAM applies to bills for service under all core and noncore rate schedules effective in the Company's Southern California service area.

8C. REVISION DATE

The Company shall file to adjust the Upstream Intrastate Variable Charge rates for this provision as often as necessary to ensure that effective rates reflect projected costs. The Company shall file periodically to update the Intrastate Transportation Cost Balancing Account Adjustment.

8D. FORECAST PERIOD

The volumes of gas, expressed in therms, to be utilized hereunder shall be the volumes estimated to be delivered during the 12 calendar-month period immediately following the Revision Date.

8E. INTRASTATE TRANSPORTATION COST BALANCING ACCOUNT ADJUSTMENT

The Intrastate Transportation Cost Balancing Account Adjustment shall consist of an amount necessary to recover or return the amount accumulated in the Intrastate Transportation Cost Balancing Account and shall be determined by dividing the balance in the account at the end of the latest available month at the time of filing by the total volumes of gas estimated to be delivered to core and noncore customers during the Forecast Period. The Intrastate Transportation Cost Balancing Account Adjustment shall be as set forth from time to time in the currently-effective Statement of Rates of this California Gas Tariff.

PRELIMINARY STATEMENTS
(Continued)

8. INTRASTATE TRANSPORTATION COST ADJUSTMENT MECHANISM (ITCAM) *(Continued)*

8F. ACCOUNTING PROCEDURE

The Company shall make the following entries to the Intrastate Transportation Cost Balancing Account at the end of each month:

1. A debit or credit entry equal to the difference between the actual cost of upstream intrastate transportation on Southern California Gas Company's system for the month and that calculated by multiplying the Upstream Intrastate Variable Charge and the Intrastate Transportation Cost Balancing Account Adjustment components of currently-effective tariff rates, excluding adjustments for franchise taxes and uncollectible accounts expense, by the total applicable core and noncore volumes delivered during the month.

2. An entry to record interest on the Intrastate Transportation Cost Balancing Account balance after entry (1) above, calculated as set forth in Section 12B of these Preliminary Statements.

PRELIMINARY STATEMENTS
(Continued)

9. FIXED COST ADJUSTMENT MECHANISM (FCAM)

9A. PURPOSE

The purpose of the FCAM is to balance the difference between authorized levels of Southwest Margin, recorded Upstream Storage Charges, and Interstate Reservation/Firm Access Charges with recorded revenues intended to recover these costs.

9B. APPLICABILITY

This FCAM provision applies to bills for service under all core rate schedules in the Company's California service areas.

9C. REVISION DATE

The Company shall submit an annual Post Test Year Rate Adjustment filing to adjust the Southwest Margin component of this provision, and shall file to adjust the Upstream Storage Charge and Interstate Reservation/Firm Access Charge rates for this provision as often as necessary to ensure that effective rates reflect projected costs. The Company shall file periodically to update the Fixed Cost Balancing Account Adjustment, which will include a margin balancing component to clear over- and under-recoveries of authorized margin.

9D. FORECAST PERIOD

The volumes of gas, expressed in therms, to be utilized hereunder shall be the volumes estimated to be delivered during the 12 calendar-month period immediately following the Revision Date, as specified in the Company's most recent general rate case.

9E. FIXED COST BALANCING ACCOUNT ADJUSTMENT

The Fixed Cost Balancing Account Adjustment shall consist of an amount necessary to recover or return the amount accumulated in the Fixed Cost Adjustment Mechanism and shall be determined by dividing the balance in the account at the end of the latest available month at the time of filing by the total volumes of gas estimated to be delivered to customers during the Forecast Period. The Fixed Cost Balancing Account Adjustment shall be as set forth from time to time in the currently-effective Statement of Rates of this California Gas Tariff.

PRELIMINARY STATEMENTS
(Continued)

9. FIXED COST ADJUSTMENT MECHANISM (FCAM) *(Continued)*

9F. ACCOUNTING PROCEDURE

1. Separate accounts will be maintained for the Company's Southern California, Northern California and South Lake Tahoe service areas. The Company shall make the following entries to the FCAM Balancing Accounts at the end of each month:

   a. A debit entry equal to the monthly portion of Southwest's annual margin, as reflected below;

   b. A debit entry equal to the actual cost of reservation/firm access charges and storage charges for the month; and

   c. A credit entry equal to the amount calculated by multiplying Southwest's Margin Charges, reservation/firm access charges, storage charges, and the Fixed Cost Balancing Account Adjustment components of the currently-effective tariff rates, excluding adjustments for franchise taxes and uncollectible accounts expense, by the applicable volumes delivered during the month.

   Amounts related to reservation/firm access charges and storage charges will be recorded in a subaccount of the Purchased Gas Adjustment Account (191.0). Amounts related to margin balancing will be recorded in a miscellaneous Current and Accrued Asset Account (174.0).

PRELIMINARY STATEMENTS
(Continued)

9. FIXED COST ADJUSTMENT MECHANISM (FCAM) *(Continued)*

9F. ACCOUNTING PROCEDURE *(Continued)*

ANNUAL 2010 MARGIN

	Southern California	Northern California	South Lake Tahoe
January	$ 8,910,661	$ 2,182,358	$ 817,345
February	$ 7,938,752	$ 2,029,238	$ 752,661
March	$ 7,158,594	$ 1,887,373	$ 708,996
April	$ 5,389,162	$ 1,494,409	$ 591,191
May	$ 3,972,410	$ 1,062,919	$ 470,498
June	$ 3,099,401	$ 706,709	$ 326,185
July	$ 2,584,132	$ 517,698	$ 257,792
August	$ 2,422,471	$ 448,898	$ 232,327
September	$ 2,575,165	$ 502,243	$ 259,070
October	$ 2,840,045	$ 642,986	$ 329,792
November	$ 4,325,260	$ 1,172,161	$ 496,588
December	$ 7,717,400	$ 1,913,143	$ 723,762
Total	$ 58,933,453	$ 14,560,135	$ 5,966,207

2. An entry to record interest on the Fixed Cost Balancing Account balance after entry (1) above, calculated as set forth in Section 12B of these Preliminary Statements.

PRELIMINARY STATEMENTS
(Continued)

10. PUBLIC UTILITIES COMMISSION REIMBURSEMENT FEE

10A. PURPOSE

In 1983, the Legislature established the Commission Reimbursement Fee to be paid by utilities to fund their regulation by the Commission (Public Utilities Code Sections 401 - 443). Recovery of the cost of that fee is ordered by the Commission under the authority granted by Public Utilities Code Section 433.

10B. APPLICABILITY

The Commission Reimbursement Fee applies to all gas sales rendered under all tariff rate schedules authorized by the Commission.

10C. RATE

The current Commission Reimbursement Fee rate is included in the currently-effective Statement of Rates of this California Gas Tariff.

PRELIMINARY STATEMENTS
(Continued)

11. PUBLIC UTILITIES COMMISSION MASTER-METERED MOBILE HOME PARK GAS SAFETY INSPECTION AND ENFORCEMENT PROGRAM SURCHARGE PROVISION (MHPS)

11A. PURPOSE

In 1990, the Legislature authorized the Commission to establish a surcharge to be paid by mobile home park owners or operators who maintain or operate a master-metered natural gas distribution system in order to fund a safety inspection and enforcement program (Public Utilities Code Sections 4351–4360). The surcharge to recover the cost of the program is ordered by the Commission under the authority granted by Public Utilities Code Sections 4358 and 4359.

11B. APPLICABILITY

The MHPS Surcharge applies to all mobile home park owners or operators who maintain and operate a master-metered natural gas distribution system and receive service under Schedule No. G-20 or Schedule No. G-25 in the Company's California service areas.

11C. RATE

The MHPS Surcharge per mobile home park space per month is set forth in the currently-effective Statement of Rates of this California Gas Tariff.

PRELIMINARY STATEMENTS
(Continued)

12. INTEREST

12A. GENERAL

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

12B. INTEREST ON BALANCING ACCOUNTS

Interest will accrue monthly to the Balancing Accounts as set forth in these Preliminary Statements. The calculation will be based on the average of the beginning and ending balance in such accounts at the rate of 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3-month), published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (prime, 3-month) be discontinued, interest will so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper, which most closely approximates the discounted rate, and which is published in the Federal Reserve Statistical Release, G.13, or its successor publication.

13. INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES

13A. GENERAL

All Contributions in Aid of Construction (Contributions) and Advances for construction, made to the Company pursuant to its California Gas Tariff, shall include a charge to cover the Company's resulting estimated liability for income tax.

13B. DEFINITION

Contributions and Advances shall include cash and noncash considerations provided to the Utility by an applicant for service extensions under the terms of a main or service extension agreement or for construction of temporary facilities, or by others for construction-related services deemed taxable for income tax purposes.

PRELIMINARY STATEMENTS
(Continued)

13. INCOME TAX COMPONENT OF CONTRIBUTIONS AND ADVANCES *(Continued)*

13C. APPLICABILITY

Income tax shall be collected on Contributions and Advances under the Company's California Gas Tariff, including but not limited to Rule Nos. 13, 15 and 16.

A Public Benefit Exemption may apply on a Contribution or Advance made to the Utility by a government agency on the basis of either:

1. The Contribution or Advance is made pursuant to actual condemnation or the threat thereof as recognized by Internal Revenue Code Section 1033; or

2. The Contribution or Advance does not reasonably relate to the provision of service, but rather to the benefit of the public at large.

13D. DETERMINATION

The Income Tax Component of Contributions and Advances shall be calculated by multiplying the balance of the applicant's Contributions and Advances by the tax factor of 31% beginning January 1, 2010, and thereafter.

The Company will submit to the Commission an advice letter filing to reflect any changes in the tax factor which would cause an increase or decrease of 5 percentage points or more.

The tax factor is established by using Method 5 as set forth in Decision Nos. 87-09-026 and 87-12-028 in Order Instituting Investigation 86-11-019.

The tax factors in Section 13D shall apply to all Contributions and Advances in accordance with Section D.6 of Rule No. 15, Gas Main Extensions, and Section E.4. of Rule No. 16, Gas Service Extensions.

PRELIMINARY STATEMENTS
(Continued)

14. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA)

14A. PURPOSE

The purpose of the Catastrophic Event Memorandum Account (CEMA) is to record all costs incurred by the Company associated with a catastrophic event. The Company will record the costs for the following in CEMA:

1. Restoring utility service to the Company's customers;

2. Repairing, replacing, or restoring damaged utility facilities; and

3. Complying with governmental agency orders.

14B. PROCEDURE

A catastrophic event is defined as a disaster or state of emergency as declared by the appropriate federal or state authorities.
Should a catastrophic event occur, the Company will inform the Commission by letter within 30 days after the event that the Company has started accruing costs in the CEMA. The letter shall be mailed to the Director of the Energy Division and the Chief of the Investigation, Monitoring and Compliance Branch of the Energy Division.

The letter shall specify the date, time and location of the catastrophic event. The letter shall also state which service areas are affected, the impact on the Company's facilities, and give an estimate of the extraordinary costs expected to be incurred.

Entries to the CEMA shall be made at the end of each month commencing with the month in which the event occurs. The Company shall record capital costs and expenses separately.

14C. APPLICABILITY

The CEMA balance will be recovered from all customer classes, unless specifically requested for exclusion by the Company.

14D. CHANGES IN RATES

Costs recorded in the CEMA may be recovered in rates only after a request by the Company, a showing of reasonableness, and approval by the Commission. Such a request may be made by formal application specifically for that purpose, by inclusion in a subsequent general rate case, or other rate-setting request.

PRELIMINARY STATEMENTS
(Continued)

15. TRANSPORTATION FRANCHISE FEE SURCHARGE PROVISION

15A. PURPOSE

The purpose of this provision is to provide for the calculation and collection of a Franchise Fee Surcharge on behalf of local municipalities for energy transported by utilities, but procured from other sources by customers (customer-secured natural gas) pursuant to Senate Bill No. 278 (1993).

15B. APPLICABILITY

The Transportation Franchise Fee (TFF) Surcharge applies to all core and noncore customer-secured natural gas volumes transported over the intrastate facilities of the Company in its California service areas, except as specifically exempted herein.

15C. RATE

The TFF Surcharge rate is calculated by multiplying the monthly Core Procurement Charge from the Statement of Rates — Effective Transportation Rates, excluding franchise fees, by the most current authorized Franchise Fee factor, excluding Uncollectibles, adopted in Southwest’s most recent general rate case.

The TFF Surcharge rate per therm will then be multiplied by the applicable volumes to determine the total surcharge amount.

The Core Procurement Charge is updated monthly. The TFF Surcharge will vary by month based on the updates to the Core Procurement Charge. The TFF Surcharge calculation will be included in each monthly Core Procurement Charge update to the Statement of Rates — Effective Transportation Rates.

PRELIMINARY STATEMENTS
(Continued)

15. TRANSPORTATION FRANCHISE FEE SURCHARGE PROVISION *(Continued)*

15D. SPECIAL CONDITIONS

1. The following core and noncore transportation customers may be exempt from Southwest's TFF Surcharge under the provisions of SB 278:

   a. the State of California or political subdivisions thereof;

   b. a utility transporting natural gas through another utility's service area for end use in its own service area; and

   c. a utility transporting its own natural gas through its own facilities for the purposes of generating electricity or for use in its own operations.

2. The surcharge assessed for natural gas utilized to generate electricity by a non-utility facility shall be the same as the surcharge assessed for natural gas utilized to generate electricity by the electric utility serving the area.

3. The TFF Surcharge will be shown on the core and noncore transportation customers' or agent's monthly bill based on the billed volumes of customer-secured natural gas transported by the Utility.

4. The TFF Surcharge will be shown as a separate line item on the core and noncore transportation customers' or agent's monthly bill.

5. In the event that payment from the customer or agent to the Utility pursuant to the provisions of the TFF Surcharge and SB 278 becomes more than 90 days delinquent, the Utility shall notify the appropriate municipality of the delinquency and provide the name and address of the customer and the amount of the surcharge delinquent. The Utility shall not be liable to the municipality for delinquent surcharges.

PRELIMINARY STATEMENTS
(Continued)

16. FACILITIES SURCHARGE

16A. PURPOSE

The purpose of this provision is to provide for the collection of a Facilities Surcharge per therm of gas usage in the Utility's Northern California Expansion Areas as approved in Decision 94-12-022.

16B. APPLICABILITY

The Facilities Surcharge applies to all natural gas volumes delivered in the Utility's Northern California Expansion Areas in Placer, El Dorado and Nevada Counties, as delineated in the "Description of Expansion Service Area" of this California Gas Tariff.

16C. TERM

The Facilities Surcharge shall not change and shall remain in effect until the approved recovery amount, including interest accrued monthly on the unrecovered balance at an annual rate of 8.2 percent, is fully amortized.

16D. RATE

The Facilities Surcharge, including an amount necessary to recover currently-authorized franchise fees and uncollectible accounts expense, is equal to $.12418 per therm.

The Facilities Surcharge will be multiplied by the applicable volumes to determine the total surcharge amount.

16E. SPECIAL CONDITIONS

1. Pursuant to Decision 94-12-022, Northern California Expansion Area construction costs in excess of the estimated project costs, but within the approved cost cap, will be added to the amount to be recovered through the Facilities Surcharge.

2. The total Facilities Surcharge amount will be shown as a separate line item on the customer's monthly bill.

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS

17A. PURPOSE

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

1. PPP SURCHARGE REFUNDS

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

2. STATE BOARD OF EQUALIZATION REMITTANCES

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

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

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

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

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

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*

17A. PURPOSE *(Continued)*

5. PPP SURCHARGE RATE CALCULATION

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

17B. APPLICABILITY

The PPP Balancing Accounts apply, as appropriate, to all sales and transportation service in the Company's California service areas as set forth in Rate Schedule No. G-PPPS.

17C. REVISION DATE

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

17D. LOW INCOME ENERGY EFFICIENCY BALANCING ACCOUNT (LIEEBA)

1. PURPOSE

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

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

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*

17D. LOW INCOME ENERGY EFFICIENCY BALANCING ACCOUNT (LIEEBA) *(Cont.)*

2. LIEEBA ADJUSTMENT

If amounts collected in the LIEEBA are less than the authorized program costs expended, the balance in the LIEEBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based on the most recently available billed gas volumes. The LIEEBA will be amortized into rates in accordance with Section No. 17C of these Preliminary Statements. The current LIEEBA Adjustment rate is a component of the PPP Surcharge set forth in the currently effective Statement of Rates and Schedule No. G-PPPS of this California Gas Tariff.

3. ACCOUNTING PROCEDURE

Separate accounts will be maintained for the Company's California service areas. The Company shall make the following entries to the LIEEBA:

a. On a monthly basis, a debit entry equal to the Company's actual Commission-authorized LIEE program costs, including outreach, administrative, and program audit costs;

b. On a monthly basis, a credit entry equal to the revenue collected through the LIEE component, including the LIEEBA Adjustment, of the Company's PPP Surcharge;

c. An entry to reflect any difference between the payments of the LIEE portion of the PPP Surcharge collected by the Company and remitted to the BOE, and the funding obtained from the Gas Consumption Surcharge Fund for such program costs; and

d. For amounts held on account by the Company, a monthly entry to record interest on the account calculated as set forth in Section No. 12B of these Preliminary Statements. While LIEE surcharge collections are in the possession of the State, the applicable interest is the actual amount of interest that accrued while the remittances were on deposit in the Fund.

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*

17E. CALIFORNIA ALTERNATE RATES FOR ENERGY BALANCING ACCOUNT (CAREBA)

1. PURPOSE

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

2. CAREBA ADJUSTMENT

The balance in the CAREBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based upon the most recently available billed gas volumes. The CAREBA will be amortized into rates in accordance with Section No. 17C of these Preliminary Statements. The current CAREBA Adjustment rate is a component of the non-CARE PPP Surcharge set forth in the currently-effective Statement of Rates and Schedule No. G-PPPS of this California Gas Tariff.

3. ACCOUNTING PROCEDURE

Separate accounts will be maintained for the Company's California service areas. The Company shall make the following entries to the CAREBA:

a. On a monthly basis, a debit entry equal to actual amount of CARE program costs, including rate discounts, outreach, administrative, and program audit costs;

b. On a monthly basis, a credit entry equal to the revenue collected through the CARE component, including the CAREBA Adjustment, of the Company's PPP Surcharge;

c. An entry to reflect any difference between the payments of the CARE portion of the PPP Surcharge collected by the Company and remitted to the BOE, and the funding obtained from the Gas Consumption Surcharge Fund for such program costs; and

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*

17E. CALIFORNIA ALTERNATE RATES FOR ENERGY BALANCING ACCOUNT (CAREBA) *(Continued)*

3. ACCOUNTING PROCEDURE *(Continued)*

d. For amounts held on account by the Company, a monthly entry to record interest on the account calculated as set forth in Section No. 12B of these Preliminary Statements. While CARE surcharge collections are in the possession of the State, the applicable interest is the actual amount of interest that accrued while the remittances were on deposit in the Fund.

17F. PUBLIC INTEREST RESEARCH AND DEVELOPMENT BALANCING ACCOUNT (R&DBA)

1. PURPOSE

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

2. R&DBA ADJUSTMENT

The balance in the R&DBA will be amortized into rates by dividing the balance in the account at the end of the most recent available month by the three-year average (consecutive 36-month period) based upon the most recently available billed gas volumes. The R&DBA will be amortized into rates in accordance with Section No. 17C of these Preliminary Statements. The current R&DBA Adjustment rate is a component of the PPP Surcharge set forth in the currently-effective Statement of Rates and Schedule No. G-PPPS of this California Gas Tariff.

PRELIMINARY STATEMENTS
(Continued)

17. PUBLIC PURPOSE PROGRAM (PPP) BALANCING ACCOUNTS *(Continued)*

17F. PUBLIC INTEREST RESEARCH AND DEVELOPMENT BALANCING ACCOUNT (R&DBA) *(Continued)*

3. ACCOUNTING PROCEDURE

Separate accounts will be maintained for the Company's California service areas. The Company shall make the following entries to the R&DBA:

a. On a monthly basis, a debit entry equal to the share of the State's annual R&D budgeted costs, including any CPUC and BOE administrative costs allocated to the Company, if any;

b. On a monthly basis, a credit entry equal to the revenue collected through the R&D component, including the R&DBA Adjustment, of the Company's PPP Surcharge. Such amounts collected will be remitted to the State Board of Equalization on a quarterly basis;

c. For amounts held on account by the Company during the period when revenue is collected from the PPP Surcharge until those amounts are submitted to the BOE, a monthly entry to record interest on the account calculated as set forth in Section No. 12B of these Preliminary Statements;

d. The disposition of the interest held by the Company will be determined by the CPUC.

PRELIMINARY STATEMENTS
(Continued)

18. GAS COST INCENTIVE MECHANISM (GCIM)

18A. PURPOSE

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

The GCIM provides Southwest with an incentive to achieve overall gas costs that are at or below the prevailing market prices. This is accomplished by establishing a volume-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 Southwest’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 19E.

18B. APPLICABILITY

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

18C. 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-weighted (by MMBtu) based on the trading point where the gas supplies are purchased. Volumes are included in the Gas Commodity Benchmark calculation during the period when the supplies are purchased.

PRELIMINARY STATEMENTS
(Continued)

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

18C. GCIM BENCHMARK *(Continued)*

The Gas Commodity Benchmark is determined by multiplying purchased volumes by the corresponding index or contract price. Volumes for Volatility Mitigation Program (VMP) purchases are multiplied by the respective contracted fixed price. Volumes for indexed priced and spot market purchases are multiplied by the corresponding Benchmark Price Index. The resulting dollar amounts are added together to calculate the Gas Commodity Benchmark.

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*. If one of the two publications does not report an index price for a specific basin or border market trading point, the other publication will be used. If neither publication 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.

The Northern California and South Lake Tahoe Benchmark Price Index 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 *BTU's Midday Report*. If one of the two publications does not report an index price for a specific production or market center trading point, the other publication will be used. If neither publication 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.

PRELIMINARY STATEMENTS
(Continued)

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

18C. GCIM BENCHMARK *(Continued)*

2. The Gas Transportation Benchmark is the sum of all pipeline transportation costs for delivery of gas supply volumes 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.

18D. 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;

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

PRELIMINARY STATEMENTS
(Continued)

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

18D. GCIM PURCHASED GAS COST *(Continued)*

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 appropriate GCIM annual period adjustments.

18E. 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 STATEMENTS
(Continued)

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

18E. 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 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.

18F. 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. Prices are usually 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. Southwest 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.

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.

PRELIMINARY STATEMENTS
(Continued)

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

18G. SOUTHERN CALIFORNIA STORAGE

Southwest 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. Southwest's current storage contract with SoCalGas provides for a total of 1.5 Bcf of storage inventory. The contractual amount of storage may be subject to change pursuant to a capacity preapproval process as required in Ordering Paragraph 4 in Decision (D.) 04-09-022 Southwest 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. Prior to each November 1, Southwest 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.

18H. BALANCING ACCOUNT TREATMENT

The Company portion of annual saving or cost calculated pursuant to the GCIM shall be recorded separately in Southwest'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.*

18I. REPORTING AND FILING REQUIREMENTS

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) 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, Southwest shall file an advice letter requesting authorization to make the appropriate accounting entries.

PRELIMINARY STATEMENTS
(Continued)

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

18J. GCIM PHASE-IN PERIOD

The Company contracts for VMP supplies well in advance of the start of the traditional gas year. To accommodate contractual commitments made prior to adoption of the GCIM, the Utility will have two complete GCIM annual periods to achieve annual VMP purchases up to 25 percent of total annual forecasted demand. During this phase-in period, all VMP purchases will be included in GCIM calculations notwithstanding whether such purchases exceed 25 percent of total annual forecasted demand.