

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.

A. CHARACTER OF SERVICE

1. The basic transportation service rendered under Schedule Nos. GN-T, GS-70/ GN-70/SLT-70, and GSR 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 point(s) of delivery into the customer's facility.
2. Core transportation customers in the Company's California service areas, including groups aggregating core loads, will be allocated a pro rata share of the 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.

Gas may be injected into storage from April 1 to October 31 and may be withdrawn from storage from November 1 to March 31.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% 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a monthly storage withdrawal nomination, but must provide the Company an estimate of the quantity expected to be withdrawn each month.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.

Charges for this storage service are included as the Upstream Storage Charges contained in the Statement of Rates applicable to the Southern and Northern California Divisions and the South Lake Tahoe District. In accordance with Section G.4 of this Rule, the customer shall reimburse the Company for any additional charges incurred by the Company in conjunction with the customer's use of storage services.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

A. CHARACTER OF SERVICE (Continued)

3. The services provided under Schedule Nos. GN-T, GS-70/GN-70/SLT-70 and GSR shall be provided on a best efforts basis. The Company may curtail or interrupt service due to operating conditions or conditions of *force majeure*. In the event of curtailment or interruption of service, the Company shall provide service as follows:
  - a. The Company shall provide the customer with as much advance notice as is practical of any curtailment or interruption of service;
  - b. The customer's service under Schedule Nos. GN-T, GS-70/GN-70/SLT-70 and GSR shall be curtailed in accordance with Rule No. 20 of this California Gas Tariff; and
  - c. The Company may, to the extent feasible, continue to receive the customer's gas at the receipt point(s) on a scheduled basis during the period of curtailment or interruption, and shall, to the extent feasible, redeliver such gas at the point(s) of delivery. For the period of curtailment or interruption, the Company may waive any payments that may otherwise be due pursuant to Section D hereof, to the extent that such payments are caused by the curtailment or interruption.
4. Gas transported under Schedule Nos. GN-T, GS-70/GN-70/SLT-70 and GSR shall be for use only by the customer, unless the Commission has specifically authorized the customer otherwise to resell such transported gas. Service under the provisions of Schedule No. GN-T shall not constitute the dedication of the Company's pipeline system or any portion thereof to the customer.

B. GAS SPECIFICATIONS

1. Unless otherwise agreed to by both parties, the gas delivered to the Company must meet the quality specifications required by the Company's upstream pipeline supplier(s).
2. It must also be at the pressure (See Rule No. 2 of this California Gas Tariff) and have the value specified in the customer's transportation service agreement.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

C. QUANTITIES OF GAS

1. The Company shall not be obligated to accept customer's gas in excess of amounts it advises customer it can accept. The Company shall not be required to continue to accept gas at any receipt point when the daily flow rate at that receipt point(s) is less than 50 Mcf per day.
2. Gas Industry Standards Board guidelines will be followed regarding nominating, confirming and scheduling gas receipts and deliveries as they may be revised by the FERC from time to time. The customer shall be responsible for contacting the upstream interstate pipeline(s) to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided; however, that the customer may designate one party to serve as its Agent for such purpose. In the Company's Southern California Division, such contact shall be made to the Company. The Company and upstream interstate pipeline(s) require that specific information be provided to successfully process each nomination. It is the customer's or their Agent's responsibility to satisfy the information requirements.

Nominations Made Directly to the Upstream Interstate Pipeline(s): If the customer nominates directly to the upstream interstate pipeline(s), the customer or Agent must provide their nomination(s) to the Company via facsimile or other Company-approved method prior to the nomination deadlines set forth below:

|                                |  |
|--------------------------------|--|
| Cycle 1 (Timely Nominations)   | 9:30 a.m. Pacific Clock Time on the day prior to flow. |
| Cycle 2 (Evening Nominations)  | 4:00 p.m. Pacific Clock Time on the day prior to flow. |
| Cycle 3 (Intraday Nominations) | 8:00 a.m. Pacific Clock Time on the flow day.          |
| Cycle 4 (Intraday Nominations) | 3:00 p.m. Pacific Clock Time on the flow day.          |

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

C. QUANTITIES OF GAS (Continued)

Nominations Made to the Company: If the customer nominates to the Company, the customer or Agent must provide their nomination(s) to the Company via facsimile or other Company-approved method no later than the nomination deadlines set forth below:

|                                |  |
|--------------------------------|--|
| Cycle 1 (Timely Nominations)   | 8:00 a.m. Pacific Clock Time on the day prior to flow. |
| Cycle 2 (Evening Nominations)  | 2:30 p.m. Pacific Clock Time on the day prior to flow. |
| Cycle 3 (Intraday Nominations) | 6:30 a.m. Pacific Clock Time on the flow day.          |
| Cycle 4 (Intraday Nominations) | 1:30 p.m. Pacific Clock Time on the flow day.          |

- a. Customers or their Agents may submit Nominations for multiple days (Standing Nominations), provided such Nominations are within the term of the customer's transportation service agreement. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the customer's gas.
- b. Nominations received after a deadline will be processed for the following cycle with the exception that late Cycle 4 Nominations will not be processed. The Company will confirm the volumes nominated for Cycle 1 (Timely Nominations) through all four 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.
- 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.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

C. QUANTITIES OF GAS (Continued)

- 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 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 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.
5. Upon request of the Company, the customer shall from time to time submit its best estimates of the daily, monthly and annual volumes 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. Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the customer's right, subject to the Company's approval, to vary receipts and deliveries within specified limits. Deliveries shall be those volumes which have passed the point(s) of delivery as determined by the Company's meter. Except for core customers aggregating load, any Cumulative 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 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. The customer may elect to offset any imbalance against (1) 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, if sufficient; or (3) imbalances created by customers served directly by Southern California Gas Company for customers in the Company's Southern California Division. Such offsets must be accomplished prior to the end of the authorized trading period. All trading of imbalances shall be conducted in accordance with Sections D and E of this rule.

D. TRADING OF IMBALANCE QUANTITIES

The customer may elect to offset an imbalance by identifying and reaching an agreement with one or more transportation customers of the Company that have established imbalances in an opposite direction. Alternatively, customers 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 with available storage account quantities held by that customer or group of customers, if sufficient. Customers that agree to trade imbalances will be subject to the following conditions:

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

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

D. TRADING OF IMBALANCE QUANTITIES (Continued)

2. Trading of 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 quantities may reduce a customer's imbalance toward, but not beyond, a zero imbalance level. A customer may not trade to establish an imbalance in the opposite direction of the customer's original imbalance.
4. Cumulative 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 not be allowed to trade 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 to explore opportunities for trading 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.
6. Customers wishing to execute a trade of imbalance quantities must submit an Imbalance Trading Form (Form No. 880.0) to the Company by the imbalance trading deadline. Such form shall be directed to a location specified by the Company. The Company will review, and approve as appropriate, all 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 IMBALANCE QUANTITIES (Continued)

7. In the event a customer is proposing an 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. 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 IMBALANCES BETWEEN GAS RECEIVED AND GAS DELIVERED

1. After the imbalance trading period, the difference between actual monthly deliveries and metered usage, adjusted for any previous imbalances, will be the customer's Cumulative Imbalance. Cumulative Imbalances at the end of the billing period within plus or minus 10 percent of the total metered gas usage will be allowed without penalty. Incremental imbalances in excess of plus or minus 10 percent of total metered gas usage are defined as Excess Imbalances. In addition to the charges payable under the customer's otherwise applicable rate schedules, monthly imbalance volumes 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:

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

E. PAYMENT FOR 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:

- (i) For billing periods during which customers have not been curtailed, the Excess Imbalance shall be assessed the higher of the following charges:
  - (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 IMBALANCES BETWEEN GAS RECEIVED AND GAS DELIVERED  
(Continued)

2. If a customer is assessed an imbalance charge 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 charge 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 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 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 for all deliveries and service (other than balancing service) to the customer during the preceding calendar 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 volumes, Gas Research Institute (GRI) 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 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 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 and GSR.

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 terms 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)

I. CUSTOMER'S CREDITWORTHINESS

The Company shall not be required to perform or to continue transportation service under Schedules Nos. GS-70/GN-70/SLT-70, GN-T, and GSR on behalf of any customer who is or has become insolvent or who, at the Company's request, fails within a reasonable period to demonstrate creditworthiness; provided, however, such customer may receive transportation service under Schedule Nos. GS-70/GN-70/SLT-70, GN-T, and GSR if the customer prepays for such service or furnishes good and sufficient security, as determined by the Company in its reasonable discretion, an amount equal to the cost of performing the service requested by the customer for a six-month period. For purposes of providing transportation service, the insolvency of a customer shall be evidenced by the filing by such customer or any parent entity thereof (hereinafter collectively referred to as the customer) of a voluntary petition in bankruptcy or the entry of a decree or order by a court having jurisdiction in the premises adjudging the customer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the customer under the Federal Bankruptcy Act or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the customer or of any substantial part of its property, or the ordering of the winding-up or liquidation of its affairs, with said order or decree continuing unstayed and in effect for a period of 60 consecutive days.

J. FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the customer will be constructed in accordance with the Rules included in this California Gas Tariff. Should telemetering facilities be required now, or in the future, by the Company to perform transportation service, such facilities will be installed at the customer's expense.

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.

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. The minimum term for customers electing CAT service is 12 months.
- b. 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.
- c. 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.
- d. 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.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

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

2. Storage Allocation and Rights

- a. 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 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 distribution system for current month use.
- c. 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 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. 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. 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. Credit & Collection Rights and Obligations (Continued)

a. Establishment of Credit

- (i) Application for Service — The Aggregator shall be required to complete a credit application 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. 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:

$CWR1 = 120 \text{ days} \times MDQ \times 150\% \text{ Annual Average Procurement Charge}$

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

$CWR2 = CWR1 + (75 \text{ days} \times MDQ \times \text{Average Transportation Rate})$

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 — An Aggregator may reduce its CWR by maintaining a prescribed volume of gas in storage in addition to gas stored to meet its core reliability requirements. The prescribed volume specified by the Aggregator and the Company will reduce the number of days used in the calculation of the CWR by the prescribed volume divided by the Aggregator's MDQ.

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

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

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

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:

- (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;

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

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

5. Termination of Service (Customer) (Continued)

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

RULE NO. 21

TRANSPORTATION OF CUSTOMER-SECURED NATURAL GAS  
(Continued)

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

5. Termination of Service (Customer) (Continued)

- 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. 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.

N. OTHER PROCEDURES

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, and GSR and are hereby made a part hereof.

SOUTHWEST GAS CORPORATION  
P.O. Box 98510  
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California Gas Tariff

Canceling \_\_\_\_\_ Original \_\_\_\_\_ Cal. P.U.C. Sheet No. 276-279  
\_\_\_\_\_ Cal. P.U.C. Sheet No. \_\_\_\_\_

HELD FOR FUTURE USE

Advice Letter No. 364  
Decision No. \_\_\_\_\_

Issued by  
John P. Hester  
Senior Vice President

Date Filed March 23, 2011  
Effective April 24, 2011  
Resolution No. \_\_\_\_\_