SOUTHWEST GAS CORPORATION

Justin Lee Brown, Vice President/Regulation and Public Affairs

June 17, 2015

ATTN: Tariff Unit, Energy Division
California Public Utilities Commission
505 Van Ness Avenue, Room 4005
San Francisco, CA 94102

Subject: Southwest Gas Corporation (U 905 G)
Advice Letter No. 976

Enclosed herewith is one (1) copy of Southwest Gas Corporation's Advice Letter No. 976, together with California Gas Tariff Sheet Nos. 32 - 38.

Sincerely,

Justin Lee Brown
Vice President/Regulation & Public Affairs

JLB:jjp
Enclosures

5241 Spring Mountain Road / Las Vegas. Nevada 89150-0002
P.O. Box 98510 / Las Vegas, Nevada 89193-8510 / (702) 876-7183
www.swgas.com

SOUTHWEST GAS CORPORATION

Advice Letter No. 976 June 17, 2015

PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Southwest Gas Corporation (Southwest Gas) (U 905 G) tenders herewith for filing the following tariff sheets:

Cal. P.U.C. Sheet No.	California Gas Tariff Title of Sheet	Canceling Cal. P.U.C. Sheet No.
2nd Revised Sheet No. 32	Preliminary Statement *(Continued)*	1st Revised Sheet No. 32
2nd Revised Sheet No. 33	Preliminary Statement *(Continued)*	1st Revised Sheet No. 33
2nd Revised Sheet No. 34	Preliminary Statement *(Continued)*	1st Revised Sheet No. 34
2nd Revised Sheet No. 35	Preliminary Statement *(Continued)*	1st Revised Sheet No. 35
2nd Revised Sheet No. 36	Preliminary Statement *(Continued)*	1st Revised Sheet No. 36
2nd Revised Sheet No. 37	Preliminary Statement *(Continued)*	1st Revised Sheet No. 37
2nd Revised Sheet No. 38	Preliminary Statement *(Continued)*	1st Revised Sheet No. 38

Purpose

The purpose of this filing is to revise Preliminary Statement 17 – Gas Cost Incentive Mechanism (GCIM) in Southwest Gas' California Gas Tariff.

Background

In May 2005, the Commission approved Southwest Gas' GCIM as an objective standard by which to measure the Company's natural gas procurement performance, provide an incentive to lower overall gas costs, and provide a mechanism for sharing the achieved benefits between Southwest Gas and its customers.

The GCIM works by establishing a volume-weighted natural gas market performance benchmark (GCIM Benchmark) during each annual GCIM period (November 1 through October 31). At the end of each annual GCIM period, the Company's total natural gas purchased costs are compared against the GCIM Benchmark and if the cost differences exceed certain tolerance bands, the differences, experienced in either savings (benefits) or costs are shared between Southwest Gas and its customers.

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In consultation with the Commission's Office of Ratepayer Advocates, Southwest Gas incorporates revisions to its GCIM Preliminary Statement to further clarify the GCIM process. Additionally, other revisions have been incorporated, including updates to index publications and ministerial edits that are in conformance with the other references contained throughout the tariff.

This filing will not result in an increase or decrease in any rate or charge, conflict with any rate schedule or rule, or cause the withdrawal of service.

Effective Date

Southwest Gas believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after Energy Division approval) pursuant to General Order (G.O.) 96-B. Southwest Gas respectfully requests that the tariff sheets filed herein be made effective July 17, 2015, which is thirty (30) calendar days after the date filed.

Protest

Anyone may protest this Advice Letter to the Commission. The protest must state the grounds upon which it is based with specificity, and should be submitted expeditiously. The protest must be sent no later than 20 days after the date of this Advice Letter filing and shall be sent by letter via U.S. Mail, facsimile, or electronically mailed. The address for mailing or delivering a protest to the Commission is:

Energy Division
California Public Utilities Commission
Attention: Investigation, Monitoring & Compliance Program Manager
505 Van Ness Avenue, Room 4002
San Francisco, CA 94102
E-mail: edtariffunit@cpuc.ca.gov
Facsimile: 415-703-2200

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004, at the same address as above and mailed or faxed to:

Mr. Justin Lee Brown
Vice President/Regulation & Public Affairs
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510
Facsimile: 702-364-3452

Notice

Southwest Gas is not subject to the notice requirements set forth in General Rule 4.2 in G.O. 96-B since this Advice Letter is not requesting an increase in rates or charges, or more restrictive terms or conditions.

Service

Pursuant to G.O. 96-B, General Rule 4.3, Southwest Gas is mailing copies of this advice letter and related tariff sheets to the utilities and interested parties shown on the distribution list.

Communications regarding this filing should be directed to:

Valerie J. Ontiveroz
Regulatory Manager/California
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510
Telephone: 702-876-7323
E-mail: valerie.ontiveroz@swgas.com

Respectfully submitted,
SOUTHWEST GAS CORPORATION

By: ______________________
Justin Lee Brown

Attachments

Distribution List

Advice Letter No. 976

In conformance with General Order 96-B, General Rule 4.3

The following individual has been served by regular, first-class mail:

Joe Como, Acting Director
Office of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94105

The following individuals or entities have been served by electronic mail:

Pacific Gas & Electric Company
PGETariffs@pge.com

Southern California Gas Company
SNewsom@semprautilities.com

San Diego Gas & Electric Company
SDG&ETariffs@SempraUtilities.com

Robert M. Pocta
Office of Ratepayer Advocates
California Public Utilities Commission
rmp@cpuc.ca.gov

Nathaniel Skinner
Office of Ratepayer Advocates
California Public Utilities Commission
nws@cpuc.ca.gov

Pearlie Sabino
Office of Ratepayer Advocates
California Public Utilities Commission
pzs@cpuc.ca.gov

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **Southwest Gas Corporation (U 905G)**

Utility type:

☐ ELC ■ GAS

☐ PLC ☐ HEAT ☐ WATER

Contact Person: **Valerie Ontiveroz**

Phone #: **(702) 876-7323**

E-mail: **valerie.ontiveroz@swgas.com**

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas

PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: **976**

Subject of AL: **To revise Preliminary Statement 17 – Gas Cost Incentive Mechanism**

Keywords (choose from CPUC listing): **Preliminary Statement**

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ■ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #: **Not applicable**

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL **Not applicable**

Summarize differences between the AL and the prior withdrawn or rejected AL[1]: **Not applicable**

Does AL request confidential treatment? If so, provide explanation: **Not applicable**

Resolution Required? ☐ Yes ■ No

Tier Designation: ☐ 1 ■ 2 ☐ 3

Requested effective date: **July 17, 2015**

No. of tariff sheets: **7**

Estimated system annual revenue effect: (%): **Not applicable**

Estimated system average rate effect (%): **Not applicable**

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: **Not applicable**

Service affected and changes proposed[1]: **See 'Subject of AL' above**

Pending advice letters that revise the same tariff sheets: **Not applicable**

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.
San Francisco, CA 94102
E-mail: edtariffunit@cpuc.ca.gov

Utility Info (including e-mail)
Mr. Justin Lee Brown,
Vice-President/Regulation & Public Affairs
Southwest Gas Corporation
P. O. Box 98510
Las Vegas, NV 89193-8510
E-mail: justin.brown@swgas.com
Facsimile: 702-364-3452

[1] Discuss in AL if more space is needed.

PRELIMINARY STATEMENT
(Continued)

17. GAS COST INCENTIVE MECHANISM (GCIM)

17A. PURPOSE

The Gas Cost Incentive Mechanism (GCIM) provides objective standards to measure gas procurement performance, and a methodology to share annual savings and costs between the Company's shareholders and ratepayers. The annual GCIM period shall begin each November 1 and conclude the following October 31. The GCIM is calculated separately for the Company's California service areas. T T

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

17B. APPLICABILITY

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

17C. GCIM BENCHMARK

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

1. The Gas Commodity Benchmark establishes an objective basis for evaluating gas costs. The benchmark is volume-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 STATEMENT
(Continued)

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

17C. GCIM BENCHMARK *(Continued)*

The Gas Commodity Benchmark is determined by multiplying daily purchased volumes by the corresponding contract price or Benchmark Price Index. Which price is utilized is determined by whether the purchased volumes are: 1) made under the Volatility Mitigation Program (VMP); or 2) index priced or spot market purchases. If the purchased volumes were made under the VMP, then the corresponding contract price is used. If the purchased volumes were index priced or spot market purchases, then the corresponding Benchmark Price Index is used. N C N

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

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

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

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.

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PRELIMINARY STATEMENT
(Continued)

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

17C. GCIM BENCHMARK *(Continued)* L

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 *SNL Energy Daily Gas 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 C L

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.

17D. GCIM PURCHASED GAS COST

The GCIM Purchased Gas Cost includes the following:

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

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

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

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

PRELIMINARY STATEMENT
(Continued)

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

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

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

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.

17E. ANNUAL SHARED SAVINGS/COST

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

1. Determination of the Tolerance Bands

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

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

2. Calculation of Shared Savings and Costs

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

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

PRELIMINARY STATEMENT
(Continued)

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

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

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

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

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

e. In the event of an emergency (e.g. earthquake, pipeline failure, or other *force majeure* event), incremental costs and volumes 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.

17F. VOLATILITY MITIGATION PROGRAM (VMP)

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

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

PRELIMINARY STATEMENT
(Continued)

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

17F. VOLATILITY MITIGATION PROGRAM (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. L

17G. SOUTHERN CALIFORNIA STORAGE

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

17H. BALANCING ACCOUNT TREATMENT

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

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

PRELIMINARY STATEMENT
(Continued)

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

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

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

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