PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 28, 2016

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

Advice Letter 1006

Subject: Southwest Gas Corporation Advice Letter 1006 Request for Modification of its Gas Cost Incentive Mechanism

Dear Mr. Brown:

Southwest Gas Corporation (SWG) Advice Letter (AL) 1006 is approved with the following conditions effective as of this date for the Gas Cost Incentive Mechanism (GCIM) Year beginning November 1, 2016 through October 31, 2017.

Background

On March 23, 2016, SWG filed Advice Letter 1006 seeking authorization to revise its GCIM to include additional benchmarks. SWG's current GCIM for its southern California service territory benchmarks all natural gas purchases to monthly price indices. SWG's proposed changes would include daily price indices to allow appropriate evaluation of SWG's natural gas purchases.

SWG states that the current GCIM does not appropriately provide SWG with the flexibility to address the recent events outside of the company's control affecting SWG's natural gas procurement. Three events influencing SWG's procurement include 1) the concerns about the availability of Southern California Gas Company (SoCalGas)'s Aliso Canyon underground storage facility; 2) SoCalGas' recent implementation of tariff changes permitting high and low Operational Flow Orders (OFOs) and Emergency Flow Orders (EFOs); and 3) SoCalGas' proposal to implement daily balancing which would increase the risk of balancing penalties for SWG. SWG is a wholesale customer of SoCalGas and serves a combination of residential and small commercial customers.

Protests and Reply

On April 12, 2016, the Office of Ratepayer Advocates (ORA) filed a protest to AL 1006 arguing that SWG had not provided adequate justification or support to indicate that the current structure of its GCIM is inadequate for SWG to manage unforeseen costs. ORA argues that the Volatility Mitigation Program (VMP), a component in the GCIM, allows SWG to secure supplies during any unforeseen events. The VMP program covers up to 25 percent of the total forecasted annual supply. ORA recommends rejecting the Advice Letter, but alternatively, stated that if the Commission decides to approve AL 1006, that the proposed changes be accepted on a temporary basis due to the current withdrawal limitations on the Aliso Canyon storage.

In its reply to the protest, SWG states that the current measurement of monthly price indices is an inappropriate measurement of its natural gas purchases. The proposed revisions would allow for daily natural gas purchases to be measured against daily price indices. SWG also argues that the modifications do not alter the evaluation of its natural gas purchases nor does it relieve SWG from its obligations for prudent natural gas purchases. SWG's GCIM would still be subject to the GCIM's provisions regarding shared costs or savings between SWG and its customers. SWG also states that SWG already uses the maximum purchase of 25 percent allowed by the VMP. Additionally, in the absence of reliable storage injection rights to store excess quantities, the 25 percent limit would likely increase shared costs between SWG and its customers when demand does not require using all of the 25 percent.

SWG included in its reply three scenarios with the results of the GCIM calculation using SWG's last five GCIM periods, assuming no storage access from SoCalGas. Scenario 1 assumes no modifications to the current GCIM structure. Scenario 2 includes the modification to include the daily price indices, but excludes the proposed modification to the remove daily noncompliance charges incurred by recent changes to SoCalGas' Operational or Emergency Flow Orders from the GCIM calculation. Scenario 3 adopts all the modifications proposed in SWG AL 1006. According to SWG's calculations, Scenario 1 and 2 would have resulted in additional costs to the GCIM calculation while Scenario 3 would have resulted in costs within the upper benchmark tolerance band with no shared savings or shared costs between SWG and its customers.

Discussion

In light of SoCalGas' current storage and balancing situation due to the uncertainty of Aliso Canyon storage facility, Energy Division staff agrees to the proposed modification in SWG AL 1006 conditionally for the upcoming winter. SWG has provided Energy Division staff with sufficient justification to approve the proposed modifications for the upcoming winter given the uncertainty surrounding SoCalGas' Aliso Canyon underground storage facility.

Energy Division staff agrees that recent events on the SoCalGas system limit SWG's ability to use storage injections, withdrawals and transfers on a daily and monthly basis to ensure that SWG is within its monthly balancing tolerances. Including a daily index in SWG's current southern California GCIM benchmark would provide SWG with an additional option to avoid SoCalGas' OFO imbalance charges and penalties with the intent to ensure reliability and reduce costs to shareholders and SWG customers. The current GCIM and VMP for SWG's southern California service territory do not provide sufficient flexibility for SWG to mitigate SoCalGas' restrictive changes to balancing and storage. SWG currently already includes daily price indices in its northern California GCIM benchmark, where SWG also has limited storage.

SWG acknowledges that its GCIM will still be subject to justification in its annual GCIM report. For comparison purposes and evaluation going forward, SWG is required to provide two scenarios in its next GCIM report. Similar to the scenarios provided in SWG's reply to ORA's protest, SWG will provide one scenario with GCIM calculations without the approved modifications from AL 1006 and a second scenario with GCIM calculations with the approved modifications from AL 1006 for the GCIM Year beginning November 1, 2016 extending through October 31, 2017.

Energy Division staff agrees with ORA that the proposed changes by SWG should be accepted on a temporary basis due to the uncertainty of SoCalGas' Aliso Canyon storage withdrawal limitations. Approval of the modification of this performance based tariff is appropriate for disposition by Energy Division under General Order 96-B, Energy Division Rule 5.2, subdivision 5.[1] Therefore, SWG AL 1006 is approved only for the upcoming SWG GCIM year beginning November 1, 2016 extending through October 31, 2017. If SWG chooses to extend the modifications beyond October 31, 2017, SWG must request an extension for these modifications either through another advice letter filing or include it in another CPUC proceeding, such as its upcoming GRC filing scheduled for September 2017.

Sincerely,

Edward Randolph

Edward Randolph
Director, Energy Division

cc: Valerie J. Ontiveroz, Regulatory Manager/California
Mark Pocta, ORA Program Manager
Nika Rogers, ORA

[1] General Order 96-B is available at http://docs.cpuc.ca.gov/PUBLISHED/GENERAL_ORDER/164747.htm.

SOUTHWEST GAS CORPORATION

March 23, 2016

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. 1006

Enclosed herewith is an original and one (1) copy of Southwest Gas Corporation's Advice Letter No. 1006, together with California Gas Tariff Sheet Nos. 33, 34, 36, 37 and 38.

Sincerely,

Valerie J. Ontiveroz

Valerie J. Ontiveroz
Regulatory Manager/California

VJO:dm
Enclosures

5241 Spring Mountain Road / Las Vegas, Nevada 89150-0002
P.O. Box 98510 / Las Vegas, Nevada 89193-8510 / (702) 876-7011
www.swgas.com

SOUTHWEST GAS CORPORATION

Advice Letter No. 1006 March 23, 2016

PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Southwest Gas Corporation (Southwest Gas or Company) (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.
3rd Revised Sheet No. 33	Preliminary Statement (Continued)	2nd Revised Sheet No. 33
3rd Revised Sheet No. 34	Preliminary Statement (Continued)	2nd Revised Sheet No. 34
3rd Revised Sheet No. 36	Preliminary Statement (Continued)	2nd Revised Sheet No. 36
3rd Revised Sheet No. 37	Preliminary Statement (Continued)	2nd Revised Sheet No. 37
3rd Revised Sheet No. 38	Preliminary Statement (Continued)	2nd 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[1] 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.

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[1] Application of Southwest Gas Corporation for Approval of a Gas Cost Incentive Mechanism (Application (A.) 04-11-009), was filed on November 12, 2004, and was approved by the Commission in Decision (D.) 05-05-033.

5241 Spring Mountain Road / Las Vegas, Nevada 89150-0002
P.O. Box 98510 / Las Vegas, Nevada 89193-8510 / (702) 876-7011
www.swgas.com

The existing 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.

Southwest Gas' GCIM does not appropriately contemplate all scenarios relating to the Company's natural gas procurement performance. Specifically, the Company's GCIM is structured so that, in Southwest Gas' Southern California service territory, purchases of gas on the daily market would be measured against monthly price indices. This results in an inappropriate comparison because of the price differences between the daily and monthly gas markets. The revisions proposed in this filing modifies the Company's GCIM to allow for the appropriate evaluation of the Company's natural gas purchases (i.e., daily purchases v. daily indices, monthly purchases v. monthly indices).

Recent events in the California and western US gas markets highlight the need for timely modification of Southwest Gas' GCIM to provide for the flexibility to address and account for events that influence the Company's natural gas procurement. Two recent events that underscore the need to modify the Company's GCIM include: 1) Southern California Gas Company's (SoCalGas) recent implementation of tariff changes permitting high and low Operational Flow Orders (OFOs) and Emergency Flow Orders (EFOs);[2] and 2) the concerns about the availability of SoCalGas' Aliso Canyon underground storage facility. These events, which are out of Southwest Gas' control, affect the California and western US gas markets in a manner that was not contemplated when the Commission approved the Company's GCIM in 2005 and will likely result in the need for Southwest Gas to make daily natural gas purchases. The GCIM, as approved in 2005, does not contemplate or address Southwest Gas making daily natural gas purchases in the Company's Southern California service territory.

Prior to the recent issues at Aliso Canyon and SoCalGas' implementation of high and low OFOs/EFOs, Southwest Gas and its customers were only subject to monthly balancing provisions and the occasional high OFO. This meant that Southwest Gas could use storage injections, withdrawals, and transfers on a daily and monthly basis to ensure that it was within its monthly balancing tolerance and was able to avoid most OFO imbalance charges, cash-outs, and penalties. However, with the changes on SoCalGas'

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[2] Advice Letter No. 4822-G and 4822-G-A - Modification of Tariffs Necessary to Implement Low Operational Flow Order (OFO) and Emergency Flow Order (EFO) Requirements and Description of Forecasting Model in Compliance with D.15-06-004, effective December 3, 2015.

system, Southwest Gas will likely be required to make daily natural gas purchases to manage high and low OFO/EFO penalties. In addition, SoCalGas' recent requested tariff change to implement daily balancing on its system effective May 1, 2016 in A.15-06-020[3] further exacerbates the risk of balancing penalties and will add to the need for Southwest Gas to make daily natural gas purchases.

The Company's current GCIM for its Southern California service territory benchmarks all natural gas purchases to monthly indices. Consequently, there is disconnect between the GCIM and the likelihood that Southwest Gas will need to increase its daily natural gas purchases. This disconnect will inappropriately result in daily purchases being measured against monthly indices. The modifications proposed to Southwest Gas' GCIM corrects this disconnect and allows for daily natural gas purchases to be measured against daily price indices. The modifications do not alter the evaluation of the Company's natural gas purchases as Southwest Gas is still subject to the GCIM's provisions regarding increased shared costs or savings between Southwest Gas and its customers. However, the proposed changes allow for use of the appropriate measurement (i.e., daily purchases v. daily indices, monthly purchases v. monthly indices).

Even though Southwest Gas has access to SoCalGas' storage capacity through the core parity provisions previously approved by the Commission,[4] the limitations on the availability of Aliso Canyon provides uncertainty in the quantities that Southwest Gas will be able to inject and withdraw as nominations are subject to pro rata cuts based on other entities' nominated injections or withdrawals from SoCalGas' storage. Therefore, while access to SoCalGas' storage may reduce the quantity of daily gas purchases Southwest Gas is required to make to meet its customers' demands, that access will not abdicate the need for daily purchases.

Moreover, given that Southwest Gas mainly serves a combination of residential and small commercial customers that have heat sensitive loads, the risk of incurring high and low OFO/EFO penalties or daily balancing penalties is substantially increased. This is because any forecasted usage for those customers, upon which Southwest Gas may base its purchases, is only as good as the underlying weather forecast. If the actual weather deviates by one or two degrees, the cumulative effect of that change on all of Southwest Gas' customers would push total usage outside of either the 10% tolerance provided under the OFO/EFO or the 5% tolerance under SoCalGas' more restrictive daily balancing proposal.

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[3] A.15-06-020 – Application of Southern California Gas Company (U 904 G) and San Diego Gas & Electric Company (U 902 G) for Authority to Revise Their Curtailment Procedures.
[4] D.08-12-020 Regarding the Phase One Issues and the Motion to Adopt the Settlement Agreement, at pgs. 13 & 16.

Accordingly, Southwest Gas requests authorization to modify its GCIM to allow for the appropriate evaluation of the Company's natural gas purchases (i.e., daily purchases v. daily indices, monthly purchases v. monthly indices) and to account for concerns about the availability of SoCalGas' Aliso Canyon underground storage facility. Consistent with Southwest Gas' current GCIM, the proposed revisions will fairly distribute these increased risks between Southwest Gas and its customers.

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 (GO) 96-B. Southwest Gas respectfully requests this Advice Letter be approved April 20, 2016, 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. 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

Pursuant to Energy Industry Rule 3.1(2), Southwest Gas is exempt from the notice requirements set forth in General Rule 4.2 in GO 96-B since this Advice Letter will not increase any rate or charge, cause the withdrawal of service, or provide more restrictive terms or conditions.

Service

In accordance with GO 96-B, General Rule 4.3 and Energy Industry Rule 3.2, Southwest Gas is mailing copies of this Advice Letter and related tariff sheets to the utilities and interested parties shown on the attached 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. 1006

In conformance with GO 96-B, General Rule 4.3 and Energy Industry Rule 3.2:

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

Elizabeth Echols, 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 (e-mail):

Pacific Gas & Electric Company
PG&ETariffs@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 J. 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) #: **1006**

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**

Resolution Required? ☐ Yes ■ No

Requested effective date: **April 22, 2016** No. of tariff sheets: **5**

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[5]: **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

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

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.

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.

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

PRELIMINARY STATEMENT
(Continued)

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

17C. GCIM BENCHMARK *(Continued)*

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

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;

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 in its annual GCIM report submitted pursuant to N
Section 17I of this Preliminary Statement. N

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

17F. VOLATILITY MITIGATION PROGRAM (VMP)

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

PRELIMINARY STATEMENT
(Continued)

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

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

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

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

17G. SOUTHERN CALIFORNIA STORAGE

Consistent with D.08-12-020, the Company receives a set-aside of SoCalGas storage inventory, injection, and withdrawal capacity equal to 1.98 percent of the inventory, injection, and withdrawal capacities that are allocated to the combined core customers of SoCalGas and San Diego Gas & Electric Company. Such storage set-aside is adjusted annually, no later than April 1. N
When this set-aside of SoCalGas storage is available, the Company uses its southern California storage resources primarily to reduce the impact of short-term or seasonal volatility in natural gas prices and as a peak demand supply source. To a lesser extent, storage is also employed as an imbalance management tool for intrastate capacity. The Company will endeavor to dispatch supplies into and out of storage in a manner that provides the greatest economic benefit to the ratepayers, based on market information available at that time and minimizes the purchase of supplies for periods less N
than an entire month for the Southern California service area. Prior to each N
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.

PRELIMINARY STATEMENT
(Continued)

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

17H. BALANCING ACCOUNT TREATMENT L

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

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

17I. REPORTING AND FILING REQUIREMENTS T

Within ninety (90) days of the conclusion of each annual GCIM period, the Company shall submit to the Commission's Energy Division and 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.