BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

FILED
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In the Matter of the Application of Southern California Gas Company (U 904 G), Pacific Gas and Electric Company (U 39 E), and Southwest Gas Corporation (U 905 G) for Approval of Wholesale Transportation and Exchange Agreements and Related Relief.	A.08-12-____ A0812006 (Filed December 15, 2008)

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), AND SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF WHOLESALE TRANSPORTATION AND EXCHANGE AGREEMENTS AND RELATED RELIEF

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December 15, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U 904 G), Pacific Gas and Electric Company (U 39 E), and Southwest Gas Corporation (U 905 G) for Approval of Wholesale Transportation and Exchange Agreements and Related Relief.	A.08-12-____ (Filed December 15, 2008)

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), AND SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF WHOLESALE TRANSPORTATION AND EXCHANGE AGREEMENTS AND RELATED RELIEF

In accordance with the Commission's Rules of Practice and Procedure and Resolution G-3428, Southern California Gas Company ("SoCalGas"), Pacific Gas and Electric Company ("PG&E"), and Southwest Gas Corporation ("Southwest") (collectively "Applicants") hereby submit this application ("Application") for approval of a new Wholesale Transportation Agreement between SoCalGas and Southwest ("New Southwest Agreement"), a new Southwest Exchange Gas Delivery Agreement ("New SEGDA") between PG&E and SoCalGas, and related relief. [1]

I. BACKGROUND

SoCalGas has provided wholesale gas transportation services to Southwest for the last 15 years under a California Wholesale Gas Transportation and Storage Services Agreement ("Original Southwest Agreement"). This service is made possible in part due to the Southwest

[1] The New Southwest Agreement is Attachment A to the testimony of SoCalGas witness Sharon Pope that is being concurrently served with this Application. The New SEGDA is Attachment A to the testimony of PG&E witness Roger Graham that is being concurrently served with this Application.

Exchange Gas Delivery Agreement ("Original SEGDA") between SoCalGas and PG&E. Under the Original SEGDA, some of the gas volumes under the Original Southwest Agreement are physically delivered to Southwest via PG&E pipelines. SoCalGas pays PG&E an exchange fee for the use of PG&E's pipelines.

The Commission approved the Original Southwest Agreement and Original SEGDA in D.93-07-052. The initial term of the Original Southwest Agreement expired after 15 years, on July 31, 2008, but continues to roll over for additional one-year periods, on the same terms, in the absence of termination or amendment. The term of the Original Southwest Agreement controls the term of the Original SEGDA; Section 2.2 of the Original SEGDA states that the Original SEGDA ends "coterminously" with the Original SWG Agreement.

SoCalGas, Southwest, and PG&E have been negotiating the terms of a new wholesale agreement and a new exchange agreement for many months. In response to an advice filing by SoCalGas for authorization to track increased SEGDA charges from PG&E in a memorandum account based upon an interim SEGDA executed by PG&E and SoCalGas, the Commission:

- denied SoCalGas' request to track higher SEGDA charges;[2]
- determined that PG&E does not have authority to charge a higher SEGDA exchange fee on an interim basis because it has never received approval from the Commission to charge the higher fee;[3] and
- ordered SoCalGas, PG&E, and Southwest to continue to operate under the terms of the Original Southwest Agreement and Original SEGDA at the original $0.25/Dth SEGDA exchange fee since no party has sought approval from the Commission of

[2] Resolution G-3429 at 9 (Ordering Paragraph No. 1).
[3] Resolution G-3428 at 9 (Finding No. 4).

any amendments and no party ultimately terminated the Original Southwest Agreement.[4]

In Resolution G-3428, the Commission strongly encouraged SoCalGas, Southwest, and PG&E to finalize a new Southwest Agreement and new SEGDA as soon as possible, and to quickly file an application for approval of such new agreements.[5] The three utilities are to "make every effort to adequately justify the agreements and any new or increased exchange fees."[6] If the utilities have not filed an application for approval of new agreements by December 15, 2008, they are to jointly send a letter to the Director of the Energy Division explaining the delay, starting with the 15th of December and on the 15th every month thereafter until the application is filed.[7]

With this Application, SoCalGas, Southwest, and PG&E seek approval of the New Southwest Agreement and the New SEGDA. Consistent with the Commission's direction in Resolution G-3428, Applicants have executed these new agreements and made this filing by December 15, 2008, and Applicants believe that this Application and the supporting testimony that we are concurrently serving adequately justify the agreements as well as all new or increased fees.

II. NEW SOUTHWEST AGREEMENT

The basic premise of the New Southwest Agreement is to extend the existing service relationship between SoCalGas and Southwest for another 15 years. Pursuant to this agreement, SoCalGas would continue to provide 100 percent of the wholesale transmission service needed by Southwest to serve its customers in Southern California. The New Southwest Agreement is a

[4] Resolution G-3428 at 8 and 9 (Finding Nos. 6 and 7; Ordering Paragraph No. 2).
[5] Resolution G-3428 at 9 (Ordering Paragraph No. 3).
[6] Resolution G-3428 at 7.
[7] Resolution G-3428 at 9 (Ordering Paragraph No. 3).

standard SoCalGas Master Services Contract ("MSC"), with certain special conditions applicable only to Southwest set forth in a Schedule A. Unlike the Original Southwest Agreement, there is no provision for storage services in the New Southwest Agreement.[8]

Relevant provisions of the New Southwest Agreement include the following:

- The initial term begins on the first day of the month following Commission approval and ends 15 years from the first April 1 to occur during the initial term (e.g., if the contract is approved on September 10, 2009, the initial term would begin on October 1, 2009, and end on March 31, 2025); the March 31 end date is designed to assure Southwest of continuous service during its peak usage (winter) season;
- The agreement evergreens on a year-to-year basis after the initial term, with 12 months notice from either party required for termination;[9]
- For natural gas delivered to Southwest through SoCalGas' delivery points, the rate will be SoCalGas' wholesale transportation rate as determined in SoCalGas' BCAPs or other rate proceedings;
- For natural gas delivered to Southwest through PG&E's delivery points, Southwest will pay two charges; the first charge is a pass-through by SoCalGas of the exchange fee that PG&E will charge SoCalGas for the use of such delivery points pursuant to the New SEGDA (discussed below);
- The second charge to be paid by Southwest for deliveries through PG&E's delivery points is a System Balancing Cost Adder ("SBCA") that recovers the cost of balancing services associated with the gas SoCalGas uses to pay back PG&E for

[8] In April of 2008 the storage portion of the Original Southwest Agreement was terminated and SoCalGas and Southwest entered into a separate stand-alone storage contract.
[9] The Original Southwest Agreement requires six months termination notice.

deliveries through PG&E's delivery points; the initial SBCA would be $0.0136 per decatherm based upon SoCalGas' 2009 BCAP filing;

- To facilitate the daily deliveries to PG&E required by the new SEGDA, SoCalGas will need to upgrade its Pisgah interconnection point; Southwest has agreed to pay this entire upgrade cost of approximately $1.3 million, together with related O&M charges;
- The charges for the Pisgah Meter Station upgrade ("Pisgah Meter Station Charges") will have two components: (1) a capital-related charge of approximately $16,116 per month for the 15-year term of the contract;[10] and (2) an O&M charge to reflect O&M costs incurred by SoCalGas to run the station for the benefit of Southwest (currently estimated to be approximately $12,408 per year);
- Southwest will contract separately for any firm or interruptible access rights it needs to bring gas into SoCalGas' system; these rights are not provided for in the New Southwest Agreement; and
- Because the New Southwest Agreement is based upon SoCalGas' standard MSC, basic services such as billing and imbalances will be governed by SoCalGas' tariffs, which in turn can be revised to comply with Commission decisions and orders without the need for corresponding contract amendments.

The New Southwest Agreement is described in detail in the supporting testimony of SoCalGas witness Sharon Pope that is being concurrently served with this Application. Ms. Pope also discusses each of the major differences between the New Southwest Agreement and the Original Southwest Agreement.

[10] The current capital cost estimate of $1.3 million for the Pisgah upgrade will be trued up to reflect actual expenditures once the upgrade is complete.

III. NEW SEGDA

The New SEGDA extends the existing service relationship between SoCalGas and PG&E that enables SoCalGas to provide a portion of Southwest's requirements through PG&E delivery points. This agreement is necessary because SoCalGas' transmission and distribution system does not reach all of Southwest's service territory in Southern California.

Relevant provisions of the New SEGDA include the following:

- As with the New Southwest Agreement, the initial term of the New SEGDA begins on the first day of the month following Commission approval and ends 15 years from the first April 1 to occur during the initial term (e.g., if the contract is approved on September 10, 2009, the initial term would begin on October 1, 2009, and end on March 31, 2025); the March 31 end date is designed to assure Southwest of continuous service during its peak usage (winter) season;
- The agreement evergreens on a year-to-year basis after the initial term, with 12 months notice from either party required for termination;[11]
- If the New Southwest Agreement terminates for any reason, gas deliveries under the New SEGDA would cease at that time;
- The exchange fee that PG&E will charge SoCalGas pursuant to the New SEGDA will be based on PG&E's backbone and local transmission tariff rates, and will change as these tariff rates are updated, without the need for corresponding contract amendments;[12]

[11] This is different from the Original SEGDA, which could not be ended if the Original Southwest Agreement was still in force.
[12] This is different from the Original SEGDA charge, which was negotiated by the parties and remained fixed for the term of the Original SEGDA.

- The Original SEGDA exchange fee has been $0.25/Dth for the entire life of the contract; the New SEGDA exchange fee would be an estimated $0.4233/Dth in 2009;
- As with the Original SEGDA, under the New SEGDA SoCalGas is required, on a daily basis, to redeliver to PG&E a volume of natural gas equal to the amount that PG&E has delivered to Southwest; and
- The New SEGDA addresses how to proceed when load changes on either the Southwest or PG&E systems affect minimum delivery pressures.

The New SEGDA is described in detail in the supporting testimony of PG&E witness Roger Graham that is being concurrently served with this Application. Mr. Graham also discusses each of the major differences between the New SEGDA and the Original SEGDA, including the revised SEGDA exchange fees.

IV. RATES AND CHARGES

As discussed above, under the New Southwest Agreement, Southwest will pay the following rates and charges to SoCalGas: (1) SoCalGas' wholesale transportation rate for natural gas delivered to Southwest through SoCalGas' delivery points; (2) for natural gas delivered to Southwest through PG&E's delivery points, a charge equal to the exchange fee PG&E has charged SoCalGas for such volumes, and a SBCA to recover the cost of balancing services associated with the gas SoCalGas uses to pay back PG&E for deliveries through PG&E's delivery points, and (3) Pisgah Meter Station Charges. All of these rates and charges will be incorporated into SoCalGas' rate schedule GW-SWG, and are described in detail in the supporting testimony of SoCalGas witness Gary Lenart that is being concurrently served with this Application.

The New SEGDA exchange fee that PG&E will charge SoCalGas would be an estimated $0.4233/Dth in 2009. This fee is described in detail in the supporting testimony of PG&E witness Roger Graham that is being concurrently served with this Application. PG&E treats the exchange fee charged to SoCalGas under the New SEGDA as "Other Operating Revenue" that effectively serves as a credit to the Gas Accord revenue requirement that PG&E uses to set its rates. Thus, the higher New SEGDA exchange fee will increase the revenue credit and ultimately result in lower rates for PG&E's customers.

For Southwest, the resulting wholesale transportation service charges will continue to be treated as a direct pass-through of upstream commodity-related costs for Southwest's customers and recovered through the existing Intrastate Transportation Cost Adjustment Mechanism ("ITCAM") previously authorized for Southwest. The ITCAM is designed to track the upstream charges from SoCalGas for the transportation service rendered under the Original Southwest Agreement and will be used to track and recover the upstream charges under the New Southwest Agreement.

V. THE PROPOSED NEW AGREEMENTS, RATES, AND CHARGES ARE IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

As described in the supporting testimony of SoCalGas, PG&E, and Southwest, the New Southwest Agreement, the New SEGDA, and all related rate changes and charges are in the public interest and should be approved. In particular:

- These agreements preserve a long-standing relationship that has enabled Southwest to receive safe, reliable wholesale natural gas service from SoCalGas since 1993;
- The New Southwest Agreement and the New SEGDA fulfill Southwest's desire to continue to receive 100% of its wholesale service from one utility, SoCalGas, and to

not have to deal with both SoCalGas and PG&E to meet the service needs of its customers in Southern California;

- The agreements ensure that Southwest pays for all costs associated with its wholesale service; SoCalGas' other customers will not be paying for SEGDA increases or Pisgah upgrades;
- The New SEGDA helps ensure that PG&E fully recovers the full cost of providing exchange service to SoCalGas; and
- The Pisgah exchange point upgrade will help ensure that SoCalGas' daily redeliveries to PG&E occur on a reliable basis.

VI. SUPPORTING TESTIMONY

This Application is supported by the following testimony concurrently being served on each party receiving this Application:

- Jeff Horn, Energy Markets Manager in the Energy Markets and Capacity Products department at SoCalGas: (1) provides a general description of the New SEGDA and New Southwest Agreement and the changes to SoCalGas' rates that would result from the new agreements; (2) explains the limited capital improvements at the Pisgah Meter Station needed for SoCalGas to continue to provide service to Southwest and its customers in Southern California; and (3) explains why approval of these agreements, rate changes, and capital improvements would be in the public interest and consistent with sound regulatory policy.
- Sharon Pope, Senior Market Advisor II in the Energy Markets and Capacity Products department at SoCalGas, provides a more detailed description of the New SEGDA and New Southwest Agreement. In particular, Ms. Pope describes each of the

substantive differences between the new agreements and their existing counterparts, and she explains the reasons behind each change.

- Gary Lenart, Principal Regulatory Economic Advisor in the Regulatory Affairs Department at SoCalGas and SDG&E, explains the changes to SoCalGas' rate schedule GW-SWG that will result from the New Southwest Agreement, including the new Pisgah Meter Station Charges and SBCA -- additional charges needed to facilitate the daily deliveries to PG&E required by the New SEGDA.
- Roger Graham, Manager, Product Management in the Wholesale Marketing and Business Development department at PG&E, describes the changes in the New SEGDA and the related exchange fee charged by PG&E to SoCalGas, and explains why approval of the New SEGDA would be in the public interest and consistent with sound regulatory policy.
- Steven Williams, Manager/Gas Resources Planning at Southwest, explains the benefits to Southwest customers and why approval of the New SEGDA and New Southwest Agreement would be in the public interest and consistent with sound regulatory policy.

VII. RELIEF SOUGHT

The relief sought by Applicants in this Application is: (1) approval of the New SEGDA; (2) approval of the New Southwest Agreement; (3) approval of SoCalGas' proposed capital improvements at the Pisgah Meter Station; (4) approval of the proposed changes to SoCalGas' rate schedule GW-SWG, including the new Pisgah Meter Station Charges and Storage Balancing Cost Adder; and (5) such other and further relief as may be necessary to effectuate the intent of this Application.

VIII. AFFILIATES AFFECTED AND ALTERNATIVES CONSIDERED[13]

Sempra Commodities participates in the marketplace for natural gas, but it should not be affected by SoCalGas continuing to provide wholesale service to Southwest. The only alternative SoCalGas considered was whether or not to continue to provide wholesale service to Southwest. Given the long-standing service relationship between the two companies and given Southwest's desire to continue to receive service from SoCalGas, SoCalGas decided that it was in the best interests of both SoCalGas and Southwest to attempt to continue to provide wholesale service to Southwest.

IX. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Category, Need for Hearing, Issues, and Schedule - Rule 2.1(c)

Applicants propose that this proceeding be categorized as "ratesetting" because their proposals will have a future effect on the rates of SoCalGas. Applicants do not believe that hearings are necessary and all proposals can be handled through testimony and briefing. Once interested parties have an opportunity to respond to this Application and supporting testimony the Commission will be able to conclude whether hearings are required.

The issues to be considered in this proceeding are whether the Commission should: (1) approve the New SEGDA; (2) approve the New Southwest Agreement; (3) approve SoCalGas' proposed capital improvements at the Pisgah Meter Station; (4) approve the proposed changes to SoCalGas' rate schedule GW-SWG, including the new Pisgah Meter Station Charges and Storage Balancing Cost Adder; and (5) approve such other and further relief as may be necessary to effectuate the intent of this Application.

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[13] This section is provided pursuant to a settlement executed on September 21, 2006, between SoCalGas, San Diego Gas & Electric Company, Sempra Energy, the Attorney General of the State of California, and the California Public Utilities Commission. The provisions of this settlement were adopted by the Commission in D.06-12-034.

Applicants propose the following schedule, assuming no hearings are necessary:

EVENT	DATE
Application	December 15, 2008
Responses	January 15, 2009
Initial Prehearing Conference	February 10, 2009
Intervenor Testimony (if necessary)	March 10, 2009
Rebuttal Testimony (if necessary)	March 24, 2009
Opening Briefs (if necessary)	April 14, 2009
Reply Briefs (if necessary)	April 28, 2009
Proposed Decision	May 28, 2009
Commission Decision	June 4, 2009

B. Authority - Rule 2.1

This Application is made pursuant to Sections 451, 454, 489, 491, 701, 728, and 729 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and relevant decisions, orders, and resolutions of the Commission.

C. Corporate information and Correspondence - Rule 2.1(a) and (b)

SoCalGas is a public utility organized and existing under the laws of the State of California. SoCalGas' principal place of business and mailing address is 555 West Fifth Street, Los Angeles, California 90013.

PG&E is a public utility organized and existing under the laws of the State of California. PG&E's principal place of business and mailing address is 77 Beale Street, San Francisco, California 94105.

Southwest is a public utility organized and existing under the laws of the State of California. Southwest's principal place of business and mailing address is 5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002.

All correspondence and communications to SoCalGas regarding this Application should be addressed to:

Dean Kinports
Analyst, Gas Case Management
555 West Fifth Street, GT-14D6
Los Angeles, California 90013-1011
Telephone: (213) 244-3697
Facsimile: (213) 244-8820
Email: dakinports@semprautilities.com

with a copy to:

Michael R. Thorp
Attorney for Southern California Gas Company
555 West Fifth Street, GT-14E7
Los Angeles, California 90013-1011
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
Email: mthorp@sempra.com

All correspondence and communications to PG&E regarding this Application should be addressed to:

Joshua S Levenberg
Attorney for Pacific Gas and Electric Company
P. O. Box 7442
San Francisco, California 94120
Telephone: (415) 973-5970
Email: j3ls@pge.com

All correspondence and communications to SWG regarding this Application should be addressed to:

Keith A. Brown
Attorney for Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89150-0002
Telephone: (702) 876-7157
Facsimile: (702) 252-7283
Email: keith.brown@swgas.com

D. Articles of Incorporation - Rule 2.2

SoCalGas previously filed a certified copy of its Restated Articles of Incorporation with A.98-10-012, and these articles are incorporated herein by reference. PG&E previously filed a certified copy of its Restated Articles of Incorporation with A.04-05-005, and these articles are incorporated herein by reference. Southwest previously filed a certified copy of its Restated Articles of Incorporation with A.07-12-022, and these articles are incorporated herein by reference.

E. Balance Sheet and Income Statement – Rule 3.2(a)(1)

Attachment A to this Application is SoCalGas' Balance Sheet as of September 30, 2008, and SoCalGas' Income Statement for the nine-month period ended September 30, 2008. Attachment B to this Application is PG&E's Balance Sheet as of September 30, 2008, and PG&E's Income Statement for the nine-month period ended September 30, 2008. Attachment C to this Application is Southwest's Balance Sheet as of September 30, 2008, and Southwest's Income Statement for the nine-month period ended September 30, 2008.

F. Rates - Rule 3.2(a)(2) and (3)

The rate changes for SoCalGas that will result from this Application are described in the supporting testimony of Gary Lenart. Though the New SEGDA increases the exchange fee paid by SoCalGas to PG&E, there is no expected rate impact for PG&E ratepayers. In fact, the proposed increase in the New SEGDA exchange fee may ultimately result in lower rates for PG&E's customers. Southwest will continue to recover the upstream intrastate transportation charges on a straight pass-through basis under its existing ITCAM tariff provisions.

G. Property and Equipment - Rule 3.2(a)(4)

A general description of SoCalGas' property and equipment was previously filed with the Commission on May 31, 2004, in connection with SoCalGas' A.04-05-008 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto is Attachment D to this Application.

A general description of PG&E's property and equipment and a statement of the original cost and depreciation reserve attributable thereto were previously filed with the Commission on May 15, 2008, in connection with PG&E's A.08-05-023 and are incorporated herein by reference.

A general description of Southwest's property and equipment was previously filed with the Commission on December 21, 2007, in connection with Southwest's A.07-12-022 and is incorporated herein by reference. A statement of the original cost and depreciation reserve attributable thereto is Attachment E to this Application.

H. Summary of Earnings - Rules 3.2(a)(5) and (6)

Attachment F to this Application is a SoCalGas Summary of Earnings for the nine months ended September 30, 2008. PG&E previously filed a Summary of Earnings as part of A.08-06-011, and this summary is incorporated herein by reference. Attachment C to this Application is a Southwest Summary of Earnings for the nine months ended September 30, 2008.

I. Exhibits and Readiness - Rule 3.2

Applicants are concurrently serving supporting testimony with this Application, and are ready to proceed with their showing.

J. Depreciation - Rule 3.2(a)(7)

For financial statement purposes, depreciation of utility plant for SoCalGas has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, SoCalGas generally computes depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, SoCalGas has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, SoCalGas has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems and, since 1982, has normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

A statement of the method of computing the depreciation deduction for federal income tax purposes is included in Exhibit A of PG&E's A.08-06-003, filed June 2, 2008, and is incorporated herein by reference.

For financial statement purposes, depreciation of utility plant for Southwest has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, Southwest generally computes depreciation using the Class Life and Asset Depreciation Range Systems, on tax property additions prior to 1981. For tax property additions in years 1981 through 1986, Southwest has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, Southwest computed its tax depreciation using the Modified Accelerated Cost Recovery

Systems and, has normalized the effects of the depreciation differences on all property in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

K. Proxy Statement - Rule 3.2(a)(8)

SoCalGas' latest proxy statement, dated April 4, 2008, was mailed to the Commission on April 29, 2008, and is incorporated herein by reference. PG&E's latest proxy statement was filed with the Commission on April 14, 2008, in connection with A.08-04-022, and is incorporated herein by reference. Southwest's latest proxy statement was filed with the Commission on June 30, 2008, in connection with A.08-06-031, and is incorporated herein by reference.

L. Pass Through of Costs - Rule 3.2(a)(10)

The rate changes sought by SoCalGas in this Application would not simply pass through to their respective customers increased costs to SoCalGas for services or commodities furnished by SoCalGas. Pursuant to Public Utilities Code Section 454 and the ITCAM tariff provision previously authorized for Southwest, the resulting wholesale service charges are treated as a direct pass-through of upstream commodity-related costs for Southwest's customers.

M. Service and Notice - Rule 24

Applicants are serving this Application on all parties listed in the attached service list.

DATED at Los Angeles, California, this 15th day of December, 2008.

Respectfully submitted,

SOUTHERN CALIFORNIA GAS COMPANY

By: *<u>/s/ Richard M. Morrow</u>*
Richard M. Morrow
Vice President
Customer Services

PACIFIC GAS AND ELECTRIC COMPANY

By: *\/s/ Robert T. Howard*

Robert T. Howard

Vice President

Gas Transmission & Distribution

SOUTHWEST GAS CORPORATION

By: *\/s/ William N. Moody*

William N. Moody

Vice President

Gas Resources

By: *___/s/ Michael R. Thorp______________*
MICHAEL R. THORP
Attorney for
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Email: mthorp@sempra.com

By: *__/s/ Joshua S Levenberg__*
JOSHUA S LEVENBERG
Attorney for
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San Francisco, California 94120
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By: *__/s/ Keith A. Brown__*
KEITH A. BROWN
Attorney for
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Las Vegas, Nevada 89150-0002
Telephone: (702) 876-7157
Facsimile: (702) 252-7283
E-mail: keith.brown@swgas.com

VERIFICATION

I am an officer of Southern California Gas Company and am authorized to make this verification on its behalf. The matters stated in the foregoing Application with respect to Southern California Gas Company are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 15th day of December, 2008, at Los Angeles, California.

/s/ Richard M. Morrow

Richard M. Morrow
Vice President
Customer Services

VERIFICATION

I am an officer of Pacific Gas and Electric Company and am authorized to make this verification on its behalf. The matters stated in the foregoing Application with respect to Pacific Gas and Electric Company are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 15th day of December, 2008, at San Francisco, California.

/s/ Robert T. Howard

Robert T. Howard
Vice President
Gas Transmission & Distribution

VERIFICATION

I am an officer of Southwest Gas Corporation and am authorized to make this verification on its behalf. The matters stated in the foregoing Application with respect to Southwest Gas Corporation are true to my own knowledge, except as to matters that are stated therein on information and belief, and as to those matters I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 15th day of December, 2008, at Las Vegas, Nevada.

/s/ William N. Moody
William N. Moody
Vice President
Gas Resources

ATTACHMENT A

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
SEPTEMBER 30, 2008

	1. UTILITY PLANT	2008
101	UTILITY PLANT IN SERVICE	$8,353,549,311
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	-
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	182,217,590
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(3,555,071,416)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(16,447,628)
117	GAS STORED-UNDERGROUND	55,521,950
	TOTAL NET UTILITY PLANT	5,019,769,808

	2. OTHER PROPERTY AND INVESTMENTS	
121	NONUTILITY PROPERTY	122,785,809
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(96,964,398)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	70,535
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	62,994,051
	TOTAL OTHER PROPERTY AND INVESTMENTS	88,885,997

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
SEPTEMBER 30, 2008

3. CURRENT AND ACCRUED ASSETS

		2008
131	CASH	12,513,953
132	INTEREST SPECIAL DEPOSITS	-
134	OTHER SPECIAL DEPOSITS	-
135	WORKING FUNDS	93,075
136	TEMPORARY CASH INVESTMENTS	25,800,000
141	NOTES RECEIVABLE	68,312
142	CUSTOMER ACCOUNTS RECEIVABLE	392,388,205
143	OTHER ACCOUNTS RECEIVABLE	31,791,526
144	ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(11,356,567)
145	NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	175,128
146	ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	(6,199,328)
151	FUEL STOCK	-
152	FUEL STOCK EXPENSE UNDISTRIBUTED	-
154	PLANT MATERIALS AND OPERATING SUPPLIES	27,458,510
155	MERCHANDISE	281
156	OTHER MATERIALS AND SUPPLIES	-
163	STORES EXPENSE UNDISTRIBUTED	2,237,275
164	GAS STORED	300,721,149
165	PREPAYMENTS	69,695,320
171	INTEREST AND DIVIDENDS RECEIVABLE	27,566
173	ACCRUED UTILITY REVENUES	-
174	MISCELLANEOUS CURRENT AND ACCRUED ASSETS	39,848,225
175	DERIVATIVE INSTRUMENT ASSETS	20,499,372
176	LONG TERM PORTION OF DERIVATIVE ASSETS - HEDGES	2,516,893
	TOTAL CURRENT AND ACCRUED ASSETS	908,278,897

4. DEFERRED DEBITS

181	UNAMORTIZED DEBT EXPENSE	4,692,249
182	UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	258,182,572
183	PRELIMINARY SURVEY & INVESTIGATION CHARGES	1,573,407
184	CLEARING ACCOUNTS	(2,258,174)
185	TEMPORARY FACILITIES	-
186	MISCELLANEOUS DEFERRED DEBITS	(18,572,828)
188	RESEARCH AND DEVELOPMENT	-
189	UNAMORTIZED LOSS ON REACQUIRED DEBT	31,008,894
190	ACCUMULATED DEFERRED INCOME TAXES	30,633,646
191	UNRECOVERED PURCHASED GAS COSTS	-
	TOTAL DEFERRED DEBITS	305,259,766
	TOTAL ASSETS AND OTHER DEBITS	$ 6,322,194,468

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
SEPTEMBER 30, 2008

5. PROPRIETARY CAPITAL

		2008
201	COMMON STOCK ISSUED	$834,888,907
204	PREFERRED STOCK ISSUED	21,551,075
207	PREMIUM ON CAPITAL STOCK	-
208	OTHER PAID-IN CAPITAL	-
210	GAIN ON RETIRED CAPITAL STOCK	9,722
211	MISCELLANEOUS PAID-IN CAPITAL	31,306,680
214	CAPITAL STOCK EXPENSE	(143,261)
216	UNAPPROPRIATED RETAINED EARNINGS	726,768,216
219	ACCUMULATED OTHER COMPREHENSIVE INCOME	(9,923,827)
	TOTAL PROPRIETARY CAPITAL	1,604,457,512

6. LONG-TERM DEBT

221	BONDS	1,100,000,000
224	OTHER LONG-TERM DEBT	12,475,533
225	UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226	UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	(1,944,147)
	TOTAL LONG-TERM DEBT	1,110,531,386

7. OTHER NONCURRENT LIABILITIES

227	OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	-
228.2	ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	86,053,444
228.3	ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	94,245,582
228.4	ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230	ASSET RETIREMENT OBLIGATIONS	602,333,356
	TOTAL OTHER NONCURRENT LIABILITIES	782,632,382

SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
SEPTEMBER 30, 2008

8. CURRENT AND ACCRUED LIABILITES

		2008
231	NOTES PAYABLE	95,991,338
232	ACCOUNTS PAYABLE	329,581,290
233	NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234	ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	2,355,610
235	CUSTOMER DEPOSITS	104,298,090
236	TAXES ACCRUED	28,216,092
237	INTEREST ACCRUED	22,836,090
238	DIVIDENDS DECLARED	323,266
241	TAX COLLECTIONS PAYABLE	14,767,095
242	MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	225,629,278
243	OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	-
244	DERIVATIVE INSTRUMENT LIABILITIES	9,016,839
245	DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
	TOTAL CURRENT AND ACCRUED LIABILITIES	833,014,987

9. DEFERRED CREDITS

252	CUSTOMER ADVANCES FOR CONSTRUCTION	89,929,352
253	OTHER DEFERRED CREDITS	194,555,069
254	OTHER REGULATORY LIABILITIES	1,472,771,680
255	ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	30,922,392
257	UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281	ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	-
282	ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	187,160,387
283	ACCUMULATED DEFERRED INCOME TAXES - OTHER	16,219,320
	TOTAL DEFERRED CREDITS	1,991,558,200
	TOTAL LIABILITIES AND OTHER CREDITS	$ 6,322,194,468

SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2008

1. UTILITY OPERATING INCOME

400	OPERATING REVENUES		$3,783,951,127
401	OPERATING EXPENSES	$3,095,786,917	
402	MAINTENANCE EXPENSES	85,262,338	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	209,064,950	
408.1	TAXES OTHER THAN INCOME TAXES	51,018,255	
409.1	INCOME TAXES	50,511,372	
410.1	PROVISION FOR DEFERRED INCOME TAXES	70,090,389	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(1,680,685)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(2,027,447)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	-	
411.7	LOSS FROM DISPOSITION OF UTILITY PLANT	-	
	TOTAL OPERATING REVENUE DEDUCTIONS		3,558,026,089
	NET OPERATING INCOME		225,925,038

2. OTHER INCOME AND DEDUCTIONS

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417	REVENUES FROM NONUTILITY OPERATIONS	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(85,330)	
418	NONOPERATING RENTAL INCOME	253,476	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	6,200,493	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	5,792,537	
421	MISCELLANEOUS NONOPERATING INCOME	353,046	
421.1	GAIN ON DISPOSITION OF PROPERTY	-	
	TOTAL OTHER INCOME	12,514,222	
425	MISCELLANEOUS AMORTIZATION	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	1,837,460	
		1,837,460	
408.2	TAXES OTHER THAN INCOME TAXES	66,866	
409.2	INCOME TAXES	(4,557,755)	
410.2	PROVISION FOR DEFERRED INCOME TAXES	(239,545)	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	5,136,053	
420	INVESTMENT TAX CREDITS	(8,208)	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	397,410	
	TOTAL OTHER INCOME AND DEDUCTIONS		10,279,352
	INCOME BEFORE INTEREST CHARGES		236,204,390
	NET INTEREST CHARGES*		45,049,581
	NET INCOME		$191,154,808

**NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION. ($774,627).*

SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2008

3. RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	$586,583,206
NET INCOME (FROM PRECEDING PAGE)	191,154,808
DIVIDEND TO PARENT COMPANY	(50,000,000)
DIVIDENDS DECLARED - PREFERRED STOCK	969,798
OTHER RETAINED EARNINGS ADJUSTMENT	
RETAINED EARNINGS AT END OF PERIOD	$728,707,813

ATTACHMENT B

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	(Unaudited)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2008**	**2007**	**2008**	**2007**
Operating Revenues				
Electric	$ 2,880	$ 2,574	$ 8,039	$ 7,107
Natural gas	794	705	2,946	2,714
Total operating revenues	3,674	3,279	10,985	9,821
Operating Expenses				
Cost of electricity	1,282	998	3,406	2,606
Cost of natural gas	351	281	1,613	1,431
Operating and maintenance	982	950	3,009	2,788
Depreciation, amortization, and decommissioning	419	465	1,239	1,325
Total operating expenses	3,034	2,694	9,267	8,150
Operating Income	640	585	1,718	1,671
Interest income	20	33	77	116
Interest expense	(170)	(189)	(528)	(549)
Other income (expense), net	(2)	13	24	38
Income Before Income Taxes	488	442	1,291	1,276
Income tax provision	167	159	421	458
Net Income	321	283	870	818
Preferred stock dividend requirement	3	4	10	10
Income Available for Common Stock	$ 318	$ 279	$ 860	$ 808

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	Balance At	
(in millions)	September 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 57	$ 141
Restricted cash	1,325	1,297
Accounts receivable:		
Customers (net of allowance for doubtful accounts of $75 million in 2008 and $58 million in 2007)	2,530	2,349
Related parties	-	6
Regulatory balancing accounts	1,117	771
Inventories:		
Gas stored underground and fuel oil	333	205
Materials and supplies	172	166
Income taxes receivable	-	15
Prepaid expenses and other	517	252
Total current assets	6,051	5,202
Property, Plant, and Equipment		
Electric	27,146	25,599
Gas	10,016	9,620
Construction work in progress	1,668	1,348
Total property, plant, and equipment	38,830	36,567
Accumulated depreciation	(13,407)	(12,913)
Net property, plant, and equipment	25,423	23,654
Other Noncurrent Assets		
Regulatory assets	4,233	4,459
Nuclear decommissioning funds	1,819	1,979
Related parties receivable	27	23
Other	1,011	993
Total other noncurrent assets	7,090	7,454
TOTAL ASSETS	$ 38,564	$ 36,310

PACIFIC GAS AND ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share amounts)	(Unaudited) Balance At September 30, 2008	(Unaudited) Balance At December 31, 2007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 1,335	$ 519
Long-term debt, classified as current	600	-
Energy recovery bonds, classified as current	366	354
Accounts payable:		
Trade creditors	962	1,067
Disputed claims and customer refunds	1,588	1,629
Related parties	33	28
Regulatory balancing accounts	906	673
Other	371	370
Interest payable	701	697
Income taxes payable	193	-
Deferred income taxes	161	4
Other	1,185	1,200
Total current liabilities	8,401	6,541
Noncurrent Liabilities		
Long-term debt	7,536	7,891
Energy recovery bonds	1,310	1,582
Regulatory liabilities	4,456	4,448
Asset retirement obligations	1,628	1,579
Income taxes payable	82	103
Deferred income taxes	3,421	3,104
Deferred tax credits	95	99
Other	1,974	1,838
Total noncurrent liabilities	20,502	20,644
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock without mandatory redemption provisions:		
Nonredeemable, 5.00% to 6.00%, outstanding 5,784,825 shares	145	145
Redeemable, 4.36% to 5.00%, outstanding 4,534,958 shares	113	113
Common stock, $5 par value, authorized 800,000,000 shares, issued 264,374,809 shares in 2008 and issued 282,916,485 shares in 2007	1,322	1,415
Common stock held by subsidiary, at cost, 19,481,213 shares in 2007	-	(475)
Additional paid-in capital	2,150	2,220
Reinvested earnings	5,910	5,694
Accumulated other comprehensive income	21	13
Total shareholders' equity	9,661	9,125
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 38,564	$ 36,310

ATTACHMENT C

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)
(Unaudited)

	SEPTEMBER 30, 2008	DECEMBER 31, 2007
ASSETS		
Utility plant:		
Gas plant	$ 4,230,427	$ 4,043,936
Less: accumulated depreciation	(1,334,915)	(1,261,867)
Acquisition adjustments, net	1,677	1,812
Construction work in progress	43,720	61,419
Net utility plant	2,940,909	2,845,300
Other property and investments	137,155	143,097
Current assets:		
Cash and cash equivalents	13,165	31,991
Accounts receivable, net of allowances	119,224	203,660
Accrued utility revenue	32,600	74,900
Income taxes receivable, net	18,424	14,286
Deferred income taxes	7,952	6,965
Deferred purchased gas costs	-	33,946
Prepaids and other current assets	79,069	136,711
Total current assets	270,434	502,459
Deferred charges and other assets	161,378	179,332
Total assets	$ 3,509,876	$ 3,670,188
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $1 par (authorized - 60,000,000 shares; issued and outstanding - 43,712,159 and 42,805,706 shares)	$ 45,342	$ 44,436
Additional paid-in capital	757,779	732,319
Accumulated other comprehensive income (loss), net	(12,242)	(12,850)
Retained earnings	220,072	219,768
Total equity	1,010,951	983,673
Subordinated debentures due to Southwest Gas Capital II	100,000	100,000
Long-term debt, less current maturities	1,213,149	1,266,067
Total capitalization	2,324,100	2,349,740
Current liabilities:		
Current maturities of long-term debt	12,455	38,079
Short-term debt	-	9,000
Accounts payable	79,689	220,731
Customer deposits	80,297	75,019
Accrued general taxes	41,994	44,637
Accrued interest	19,757	21,290
Deferred purchased gas costs	33,744	46,088
Other current liabilities	91,084	73,088
Total current liabilities	359,020	527,932
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits	366,711	347,497
Taxes payable	3,993	4,387
Accumulated removal costs	163,000	146,000
Other deferred credits	293,052	294,632
Total deferred income taxes and other credits	826,756	792,516
Total capitalization and liabilities	$ 3,509,876	$ 3,670,188

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2008	2007	2008	2007	2008	2007
Operating revenues:						
Gas operating revenues	$ 268,450	$ 274,748	$ 1,362,753	$ 1,345,996	$ 1,831,523	$ 1,838,039
Construction revenues	105,972	96,776	272,580	245,781	364,121	318,853
Total operating revenues	374,422	371,524	1,635,333	1,591,777	2,195,644	2,156,892
Operating expenses:						
Net cost of gas sold	134,030	141,825	839,309	834,453	1,091,050	1,107,594
Operations and maintenance	87,489	83,222	256,298	250,847	336,659	336,934
Depreciation and amortization	48,650	46,271	144,128	136,348	190,294	179,967
Taxes other than income taxes	8,103	7,848	27,913	28,253	37,213	37,495
Construction expenses	93,679	83,902	243,946	214,887	323,091	276,489
Total operating expenses	371,951	363,068	1,511,594	1,464,788	1,978,307	1,938,479
Operating income	2,471	8,456	123,739	126,989	217,337	218,413
Other income and (expenses):						
Net interest deductions	(21,012)	(22,619)	(64,270)	(65,888)	(86,854)	(87,967)
Net interest deductions on subordinated debentures	(1,933)	(1,932)	(5,797)	(5,795)	(7,729)	(7,726)
Other income (deductions)	(4,163)	597	(4,572)	6,870	(4,806)	11,351
Total other income and (expenses)	(27,108)	(23,954)	(74,639)	(64,813)	(99,389)	(84,342)
Income (loss) before income taxes	(24,637)	(15,498)	49,100	62,176	117,948	134,071
Income tax expense (benefit)	(7,951)	(6,180)	19,359	22,067	45,070	47,255
Net income (loss)	$ (16,686)	$ (9,318)	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Basic earnings (loss) per share	$ (0.38)	$ (0.22)	$ 0.69	$ 0.95	$ 1.69	$ 2.06
Diluted earnings (loss) per share	$ (0.38)	$ (0.22)	$ 0.68	$ 0.94	$ 1.68	$ 2.04
Dividends declared per share	$ 0.225	$ 0.215	$ 0.675	$ 0.645	$ 0.89	$ 0.85
Average number of common shares outstanding	43,581	42,448	43,307	42,219	43,150	42,060
Average shares outstanding (assuming dilution)	-	-	43,610	42,607	43,464	42,469

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2008	2007	2008	2007
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	144,128	136,348	190,294	179,967
Deferred income taxes	17,855	(17,456)	51,379	(3,383)
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	84,436	97,711	8,993	(5,828)
Accrued utility revenue	42,300	40,800	(100)	500
Deferred purchased gas costs	21,602	93,152	17,599	79,825
Accounts payable	(141,042)	(173,942)	(12,108)	(10,615)
Accrued taxes	(7,175)	6,236	(29,948)	2,804
Other current assets and liabilities	50,708	63,935	11,745	9,185
Other	4,787	(5,844)	3,370	(7,486)
Net cash provided by operating activities	247,340	281,049	314,102	331,785
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(221,862)	(255,001)	(307,736)	(366,036)
Change in restricted cash	-	-	-	19,332
Change in customer advances	4,822	21,341	7,889	27,088
Miscellaneous inflows	44,194	4,700	44,803	7,153
Miscellaneous outflows	(2,762)	(2,053)	(21,486)	(5,862)
Net cash used in investing activities	(175,608)	(231,013)	(276,530)	(318,325)
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	26,366	26,735	34,728	39,033
Dividends paid	(28,804)	(26,814)	(38,261)	(35,612)
Issuance of long-term debt	102,460	101,956	129,098	94,633
Retirement of long-term debt	(132,504)	(105,869)	(168,726)	(108,271)
Change in long-term portion of credit facility	(49,076)	(46,000)	(76)	(16,000)
Change in short-term debt	(9,000)	-	-	-
Net cash used in financing activities	(90,558)	(49,992)	(43,237)	(26,217)
Change in cash and cash equivalents	(18,826)	44	(5,665)	(12,757)
Cash at beginning of period	31,991	18,786	18,830	31,587
Cash at end of period	$ 13,165	$ 18,830	$ 13,165	$ 18,830
Supplemental information:				
Interest paid, net of amounts capitalized	$ 69,309	$ 68,139	$ 94,505	$ 91,244
Income taxes paid	5,278	19,233	31,070	34,116

The accompanying notes are an integral part of these statements.

Note 1 – Nature of Operations and Basis of Presentation

Nature of Operations. Southwest Gas Corporation and its subsidiaries (the "Company") are composed of two segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services (Northern Pipeline Construction Co. "NPL" or the "construction services" segment). Southwest is engaged in the business of purchasing, distributing, and transporting natural gas to customers in portions of Arizona, Nevada, and California. The public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year. Variability in weather from normal temperatures can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. NPL, a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2007 Annual Report to Shareholders, which is incorporated by reference into the 2007 Form 10-K, and the first and second quarter 2008 reports on Form 10-Q.

Intercompany Transactions. NPL recognizes revenues generated from contracts with Southwest (see **Note 3** below). Accounts receivable for these services were $6.9 million at September 30, 2008 and $6.1 million at December 31, 2007. The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation."

Reclassifications. Certain reclassifications have been made to the prior year's financial information to present it on a basis comparable with the current year's presentation.

Recently Issued Accounting Pronouncements. In December 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141 (revised 2007), "Business Combinations." SFAS No. 141 (revised 2007) provides guidelines for the presentation and measurement of assets and liabilities acquired in a business combination and requires the disclosure of information necessary to evaluate the nature and financial effect of a business combination. The provisions of SFAS No. 141 (revised 2007) are effective for the Company for acquisitions that occur on or after January 1, 2009. The Company is evaluating what impact, if any, this standard might have on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51." SFAS No. 160 requires all entities to report minority interests in subsidiaries as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for the Company beginning January 1, 2009. The Company is evaluating what impact, if any, this standard might have on its financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133." SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities. The provisions of SFAS No. 161 are effective for the Company beginning January 1, 2009. The Company is evaluating what impact this standard might have on its financial disclosures.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS No. 162 identifies (in accounting literature instead of auditing literature) the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States (the GAAP hierarchy). The provisions of SFAS No. 162 are effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The adoption of the standard is not expected to have a material impact on the financial position or results of operations of the Company.

Note 2 – Components of Net Periodic Benefit Cost

Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees and a separate unfunded supplemental retirement plan ("SERP") which is limited to officers. Southwest also provides postretirement benefits other than pensions ("PBOP") to its qualified retirees for health care, dental, and life insurance benefits.

	Qualified Retirement Plan					
	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
(Thousands of dollars)						
Service cost	$ 4,027	$ 4,123	$ 12,081	$ 12,368	$ 16,204	$ 16,439
Interest cost	8,123	7,311	24,368	21,933	31,679	28,635
Expected return on plan assets	(8,679)	(8,257)	(26,035)	(24,773)	(34,292)	(32,425)
Amortization of prior service costs (credits)	(3)	(3)	(8)	(8)	(11)	(10)
Amortization of net loss	776	1,252	2,328	3,755	3,580	5,093
Net periodic benefit cost	$ 4,244	$ 4,426	$ 12,734	$ 13,275	$ 17,160	$ 17,732

	SERP					
	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
(Thousands of dollars)						
Service cost	$ 24	$ 38	$ 73	$ 115	$ 111	$ 168
Interest cost	510	487	1,531	1,461	2,018	1,934
Expected return on plan assets	-	-	-	-	-	2
Amortization of net loss	250	283	748	848	1,031	1,159
Net periodic benefit cost	$ 784	$ 808	$ 2,352	$ 2,424	$ 3,160	$ 3,263

	PBOP					
	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
(Thousands of dollars)						
Service cost	$ 182	$ 203	$ 548	$ 608	$ 751	$ 821
Interest cost	581	576	1,743	1,728	2,319	2,257
Expected return on plan assets	(534)	(536)	(1,604)	(1,608)	(2,140)	(2,063)
Amortization of transition obligation	216	216	650	650	867	867
Amortization of net loss	-	14	-	43	14	85
Net periodic benefit cost	$ 445	$ 473	$ 1,337	$ 1,421	$ 1,811	$ 1,967

Note 3 – Segment Information

The following tables list revenues from external customers, intersegment revenues, and segment net income (thousands of dollars):

	Natural Gas Operations	Construction Services	Total
Three months ended September 30, 2008			
Revenues from external customers	$ 268,450	$ 88,034	$ 356,484
Intersegment revenues	-	17,938	17,938
Total	$ 268,450	$ 105,972	$ 374,422
Segment net income (loss)	$ (19,678)	$ 2,992	$ (16,686)
Three months ended September 30, 2007			
Revenues from external customers	$ 274,748	$ 77,445	$ 352,193
Intersegment revenues	-	19,331	19,331
Total	$ 274,748	$ 96,776	$ 371,524
Segment net income (loss)	$ (12,863)	$ 3,545	$ (9,318)
Nine months ended September 30, 2008			
Revenues from external customers	$ 1,362,753	$ 225,558	$ 1,588,311
Intersegment revenues	-	47,022	47,022
Total	$ 1,362,753	$ 272,580	$ 1,635,333
Segment net income	$ 24,748	$ 4,993	$ 29,741
Nine months ended September 30, 2007			
Revenues from external customers	$ 1,345,996	$ 192,602	$ 1,538,598
Intersegment revenues	-	53,179	53,179
Total	$ 1,345,996	$ 245,781	$ 1,591,777
Segment net income	$ 32,910	$ 7,199	$ 40,109
Twelve months ended September 30, 2008			
Revenues from external customers	$ 1,831,523	$ 298,893	$ 2,130,416
Intersegment revenues	-	65,228	65,228
Total	$ 1,831,523	$ 364,121	$ 2,195,644
Segment net income	$ 64,332	$ 8,546	$ 72,878
Twelve months ended September 30, 2007			
Revenues from external customers	$ 1,838,039	$ 242,956	$ 2,080,995
Intersegment revenues	-	75,897	75,897
Total	$ 1,838,039	$ 318,853	$ 2,156,892
Segment net income	$ 76,077	$ 10,739	$ 86,816

Note 4 – Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2008	2007	2008	2007	2008	2007
	(Thousands of dollars)					
Net income (loss)	$ (16,686)	$ (9,318)	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Additional minimum pension liability adjustment, net of $20.3 million tax expense		-		-		33,047
Net actuarial gain arising during period, less amortization of unamortized benefit plan cost, net of tax	203	246	608	735	689	735
Comprehensive income (loss)	$ (16,483)	$ (9,072)	$ 30,349	$ 40,844	$ 73,567	$ 120,598

Tax expense related to the net actuarial gain arising during the period, less amortization of unamortized benefit plan cost, for the three months, nine months, and twelve months ended September 30, 2008 was $124,000, $372,000, and $422,000, respectively. Tax expense related to the net actuarial gain arising during the period, less amortization of unamortized benefit plan cost for the three months, nine months, and twelve months ended September 30, 2007 was $150,000, $450,000, and $450,000, respectively. Total accumulated other comprehensive loss as of September 30, 2008 was $12.2 million, net of $7.6 million of tax, and was composed entirely of unamortized benefit plan costs.

Note 5 – Common Stock

During the nine months ended September 30, 2008, the Company issued approximately 906,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan. No shares have been issued through the Equity Shelf Program ("ESP") in 2008.

Note 6 - Derivatives and Fair Value Measurements

In managing its natural gas supply portfolios, Southwest has historically entered into fixed and variable-price contracts, which qualify as derivatives under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS No. 133"). In 2008, Southwest also began utilizing fixed-for-floating swap contracts ("Swaps") to supplement its fixed-price contracts. The fixed-price contracts, firm commitments to purchase a fixed amount of gas in the future at a fixed price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business under SFAS No. 133 and are exempt from its fair value provisions. The variable-price contracts have no significant market value and are likewise not affected by SFAS No. 133's fair value provisions. Swaps are subject to the fair value provisions and must be recorded at fair value.

The fixed-price contracts and Swaps are utilized by Southwest under its volatility mitigation programs to effectively fix the price on approximately 50 percent of its natural gas portfolios. The maturities of the Swaps highly correlate to actual purchases of natural gas, during timeframes ranging from November 2008 through October 2009. Under such contracts, Southwest pays the counterparty at a fixed rate and receives from the counterparty a floating rate per MMBtu ("dekatherm") of natural gas. Only the net differential is actually paid or received. The differential is calculated based on the notional amounts under the contracts (approximately 3.5 million dekatherms at September 30, 2008). Southwest does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

Pursuant to regulatory deferral accounting treatment under SFAS No. 71, Southwest records the unrealized gains and losses in fair value of the Swaps as a regulatory asset and/or liability. When the Swaps settle, Southwest reverses any prior positions held and records the settled position as an increase or decrease of purchased gas under the related purchased gas adjustment ("PGA") mechanism in determining its deferred PGA balances. In accordance with this described treatment, at September 30, 2008, Southwest recorded the fair values of the Swaps in Other current liabilities ($10.9 million) and in Other deferred credits ($204,000). Corresponding offsetting amounts were recorded in Prepaids and other current assets ($10.9 million) and Deferred charges and other assets ($204,000). Due to the provisions of SFAS No. 71, neither changes in the fair value of the contracts nor settled amounts have a direct effect on earnings or other comprehensive income. The estimated fair values of the derivatives were determined using future natural gas index prices (as more fully described below).

In January 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 states that a fair value measurement should be based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy that ranks the inputs used to measure fair value by their reliability. The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for similar assets or liabilities, either directly or indirectly.

Level 3 - unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The estimated fair values of Southwest's Swaps were determined at September 30, 2008 using NYMEX futures settlement prices for delivery of natural gas at Henry Hub adjusted by the price of NYMEX ClearPort basis Swaps, which reflect the difference between the price of natural gas at a given delivery basin and the Henry Hub pricing points. These Level 2 inputs are observable in the marketplace throughout the full term of the Swaps.

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of September 30, 2008.

		Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Financial Assets and Liabilities	**Significant Other Observable Inputs**	**Significant Unobservable Inputs**
(Thousands of dollars)	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets at fair value:				
Prepaids and other current assets - swaps	$ -	$ -	$ -	$ -
Deferred charges and other assets - swaps	-	-	-	-
Liabilities at fair value:				
Other current liabilities - swaps	(10,935)	-	(10,935)	-
Other deferred credits - swaps	(204)	-	(204)	-
Net Assets (Liabilities)	$ (11,139)	$ -	$ (11,139)	$ -

Note 7 – Long-Term Debt

In September 2008, the Company issued $50 million in Clark County, Nevada variable-rate 2008 Series A Industrial Development Revenue Bonds ("IDRBs"), due 2038. The 2008 Series A IDRBs are supported by a letter of credit with JPMorgan Chase Bank. The proceeds from the 2008 Series A IDRBs were used by the Company to redeem the $50 million 2003 Series B variable-rate IDRBs. The 2003 Series B IDRBs were redeemed at par, plus accrued interest, in September 2008.

Note 8 – Other Income (Deductions)

Southwest has company-owned life insurance ("COLI") policies on members of management and other key employees to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. Other income (deductions) on the Company's income statements includes expenses related to declines in the cash surrender value of these life insurance policies in the three, nine, and twelve months ended September 30, 2008, of $3.7 million, $6.3 million, and $7.3 million, respectively. In contrast, Other income (deductions) on the Company's income statements includes income related to increases in the cash surrender value of these life insurance policies in the three, nine, and twelve months ended September 30, 2007, of $355,000, $2.2 million, and $3.5 million, respectively. Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, the changes in the cash surrender value components of COLI policies as they progress towards the ultimate death benefits are also recorded without tax consequences. Additionally, Other income (deductions) includes interest income in the three, nine, and twelve months ended September 30, 2008, of $216,000, $2 million and $2.7 million, respectively. Other income (deductions) includes interest income in the three, nine, and twelve months ended September 30, 2007, of $869,000, $3.8 million and $5.1 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Southwest Gas Corporation and its subsidiaries (the "Company") consist of two business segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services.

Southwest is engaged in the business of purchasing, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

As of September 30, 2008, Southwest had 1,819,000 residential, commercial, industrial, and other natural gas customers, of which 984,000 customers were located in Arizona, 657,000 in Nevada, and 178,000 in California. Residential and commercial customers represented over 99 percent of the total customer base. During the twelve months ended September 30, 2008, 55 percent of operating margin was earned in Arizona, 35 percent in Nevada, and 10 percent in California. During this same period, Southwest earned 86 percent of operating margin from residential and small commercial customers, 5 percent from other sales customers, and 9 percent from transportation customers. These general patterns are expected to continue.

Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Operating margin is the measure of gas operating revenues less the net cost of gas sold. Management uses operating margin as a main benchmark in comparing operating results from period to period. The three principal factors affecting operating margin are general rate relief, weather, and customer growth. Of these three, weather is the primary reason for volatility in margin. Variances in temperatures from normal levels, especially in Arizona where rates remain leveraged, have a significant impact on the margin and associated net income of the Company.

Northern Pipeline Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems. NPL currently operates in 20 major markets nationwide. Construction activity is cyclical and can be significantly impacted by changes in general and local economic conditions, including the housing market, interest rates, employment levels, job growth, the equipment resale market, and local and federal tax rates. Generally, revenues and profits are lowest during the first quarter of the year due to less favorable winter weather conditions. Operating results typically improve as more favorable weather conditions occur during the summer and fall months.

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the MD&A, included in the 2007 Annual Report to Shareholders, which is incorporated by reference into the 2007 Form 10-K, and the first and second quarter 2008 reports on Form 10-Q.

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations. As needed, certain items are covered in greater detail in later sections of management's discussion and analysis. As reflected in the table below, the natural gas operations segment accounted for an average of 88 percent of twelve-month-to-date consolidated net income over the past two years. As such, management's discussion and analysis is primarily focused on that segment. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Summary Operating Results

	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2008	2007	2008	2007	2008	2007
	(In thousands, except per share amounts)					
Contribution to net income (loss)						
Natural gas operations	$ (19,678)	$ (12,863)	$ 24,748	$ 32,910	$ 64,332	$ 76,077
Construction services	2,992	3,545	4,993	7,199	8,546	10,739
Net income (loss)	$ (16,686)	$ (9,318)	$ 29,741	$ 40,109	$ 72,878	$ 86,816
Average number of common shares outstanding	43,581	42,448	43,307	42,219	43,150	42,060
Basic earnings (loss) per share						
Consolidated	$ (0.38)	$ (0.22)	$ 0.69	$ 0.95	$ 1.69	$ 2.06
Natural Gas Operations						
Operating margin	$ 134,420	$ 132,923	$ 523,444	$ 511,543	$ 740,473	$ 730,445

The gas segment recorded a loss of $19.7 million during the third quarter of 2008 compared to a $12.9 million loss in the same period of 2007. Other income decreased and operating expenses increased between the two periods. Other income (principally interest income, long-term investment returns, and non-utility expenses) declined primarily as a result of negative returns on long-term investments (company-owned life insurance) in the current quarter versus positive returns in the prior-year quarter. NPL's decline resulted primarily from less profitable work due to the general slow down in the housing industry and increased costs for fuel, fuel-related products, and subcontractors.

3rd Quarter 2008 Overview

Consolidated results for the third quarter of 2008 decreased compared to the third quarter of 2007, due to declines in both the gas and construction services segments. Basic loss per share was $0.38 in the third quarter of 2008 compared to a per share loss of $0.22 in the same period of 2007.

Gas operations highlights include the following:

- Operating margin increased $1.5 million, or 1 percent, from the prior period as customer growth levels continue to moderate
- Net financing costs decreased $1.5 million between periods
- Other income declined $5 million between periods primarily due to negative returns on long-term investments (COLI)
- Southwest's project to expand its use of electronic meter reading technology is substantially complete
- Uncontested settlement reached in California rate cases (pending California Public Utilities Commission ("CPUC") approval)
- Southwest's liquidity position remains strong

Moderating Customer Growth. During the twelve months ended September 30, 2008, Southwest completed 39,000 first-time meter sets. These meter sets led to 19,000 additional active meters during the same time frame (11,000 in Arizona, 7,000 in Nevada, and 1,000 in California). The difference between first-time meter sets and incremental active meters indicates a significant inventory of unoccupied homes. The risks/costs of having non-performing assets associated with new homes are mitigated by Southwest's practice of taking construction advances from builders on most new construction. These advances are not returned until new homes are occupied. Once housing supply and demand come back into balance, Southwest expects to experience a correction in which customer additions exceed first-time meter sets. Although management cannot predict the timing of the turn around, it is likely to occur over an extended (multi-year) time horizon.

Company-Owned Life Insurance ("COLI"). Southwest has life insurance policies on members of management and other key employees to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. The COLI policies have a combined net death benefit value of approximately $138 million at September 30, 2008. The net cash surrender value of these policies (which is the cash amount the Company would receive if it voluntarily terminated the policies) is approximately $52 million at September 30, 2008 and is included in the caption "Other property and investments" on the balance sheet. In the three, nine, and twelve months ended September 30, 2008, the Company recognized declines in the cash surrender values of the COLI policies, as compared to the same periods of 2007, of $4.1 million, $8.5 million, and $10.8 million, respectively, which was reflected in Other income (deductions). Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, the changes in the cash surrender value components of COLI policies as they progress towards the ultimate death benefits are also recorded without tax consequences. Currently, the Company intends to hold the COLI policies for their duration and purchase additional policies as necessary.

Meter Reading Project. In 2006, Southwest initiated a project to expand its use of electronic meter reading technology. The efficiencies to be gained from this project more than offset the investment in infrastructure. This technology eliminates the need to gain physical access to meters in order to obtain monthly meter readings, thereby reducing the time associated with each meter read while improving their accuracy. At September 30, 2008, the electronic meter reading project was substantially complete as over 99 percent of Southwest customers' meters were being read electronically.

Liquidity. Southwest has a $300 million credit facility maturing in May 2012, $150 million of which supports ongoing working capital needs. The facility is composed of eight major banking institutions. Historically, usage of the facility has been low and concentrated in the first half of the winter heating period when gas purchases require temporary financing. In addition, Southwest has no significant debt maturities prior to February 2011.

Results of Natural Gas Operations

Quarterly Analysis

	Three Months Ended September 30,	
	2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 268,450	$ 274,748
Net cost of gas sold	134,030	141,825
Operating margin	134,420	132,923
Operations and maintenance expense	87,489	83,222
Depreciation and amortization	41,623	39,774
Taxes other than income taxes	8,103	7,848
Operating income (loss)	(2,795)	2,079
Other income (expense)	(4,548)	478
Net interest deductions	20,521	22,003
Net interest deductions on subordinated debentures	1,933	1,932
Income (loss) before income taxes	(29,797)	(21,378)
Income tax expense (benefit)	(10,119)	(8,515)
Contribution to consolidated net income (loss)	$ (19,678)	$ (12,863)

Natural gas operations recorded a loss of $19.7 million in the third quarter of 2008 compared to a loss of $12.9 million in the same period of 2007. Other income declined and operating expenses increased between the periods, partially offset by a modest increase in operating margin and lower net financing costs.

Operating margin increased $1.5 million, or one percent, in the third quarter of 2008 compared to the third quarter of 2007. Customer growth contributed $1 million toward the operating margin increase as the Company added 19,000 customers during the last twelve months, an increase of one percent. Rate changes accounted for the remainder of the increase.

Operations and maintenance expense increased $4.3 million, or five percent, primarily due to general cost increases.

Depreciation expense increased $1.8 million, or five percent, as a result of construction activities. Average gas plant in service for the current period increased $238 million, or six percent, compared to the corresponding period a year ago. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income (expense), which principally includes interest income, long-term investment returns, and non-utility expenses, decreased $5 million between periods. This was primarily due to negative returns on long-term investments (COLI) in the current quarter ($3.7 million) compared to positive returns in the prior year's quarter ($355,000).

Net financing costs decreased $1.5 million between periods primarily due to a reduction in outstanding debt.

Nine-Month Analysis

	Nine Months Ended September 30, 2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 1,362,753	$ 1,345,996
Net cost of gas sold	839,309	834,453
Operating margin	523,444	511,543
Operations and maintenance expense	256,298	250,847
Depreciation and amortization	123,565	117,380
Taxes other than income taxes	27,913	28,253
Operating income	115,668	115,063
Other income (expense)	(6,710)	5,502
Net interest deductions	62,811	64,466
Net interest deductions on subordinated debentures	5,797	5,795
Income before income taxes	40,350	50,304
Income tax expense	15,602	17,394
Contribution to consolidated net income	$ 24,748	$ 32,910

Contribution from natural gas operations decreased $8.2 million during the nine-month period of 2008 compared to the same period a year ago. The decrease in contribution was primarily caused by a decline in other income, which offset a slight improvement in operating income and lower financing costs.

Operating margin increased approximately $12 million, or two percent, during the nine-month period of 2008 compared to the same period in 2007. New customers contributed an incremental $5 million in operating margin during the current period. Rate relief in California resulted in a net $2 million increase in operating margin. Differences in heating demand primarily caused by weather variations between periods resulted in a $5 million margin increase as the current period experienced somewhat cooler temperatures while the prior period was slightly warmer-than-normal.

Operations and maintenance expense increased $5.5 million, or two percent, principally due to the impact of general cost increases. Labor efficiencies, primarily from the conversion to electronic meter reading, mitigated the increase in operations and maintenance expense.

Depreciation expense increased $6.2 million, or five percent, as a result of construction activities. Average gas plant in service increased $247 million, or six percent, as compared to the same period of 2007. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income (expense), which principally includes interest income, long-term investment returns, and non-utility expenses, declined $12.2 million during the nine-month period of 2008 compared to the same period in 2007. This was primarily due to negative returns on long-term investments (COLI) in the current period ($6.3 million) compared to positive returns in the prior year's period ($2.2 million) and a $1.8 million reduction in interest income primarily due to the full recovery of previously deferred purchased gas cost receivables.

Net financing costs decreased $1.7 million between periods primarily due to a reduction in outstanding debt.

Twelve-Month Analysis

	Twelve Months Ended September 30,	
	2008	2007
	(Thousands of dollars)	
Gas operating revenues	$ 1,831,523	$ 1,838,039
Net cost of gas sold	1,091,050	1,107,594
Operating margin	740,473	730,445
Operations and maintenance expense	336,659	336,934
Depreciation and amortization	163,275	155,022
Taxes other than income taxes	37,213	37,495
Operating income	203,326	200,994
Other income (expense)	(7,362)	8,984
Net interest deductions	84,781	86,018
Net interest deductions on subordinated debentures	7,729	7,726
Income before income taxes	103,454	116,234
Income tax expense	39,122	40,157
Contribution to consolidated net income	$ 64,332	$ 76,077

Contribution to consolidated net income from natural gas operations decreased $11.7 million in the current twelve-month period compared to the same period a year ago. The decline in contribution was primarily caused by lower other income.

Operating margin increased $10 million, or one percent, between periods. Customer growth contributed $8 million while rate changes accounted for $2 million of the increase. Warmer-than-normal temperatures were experienced during both twelve-month periods (each with estimated negative impacts to operating margin of approximately $7 million), resulting in no incremental impact between the periods.

Operations and maintenance expense was essentially unchanged between periods. Labor efficiencies, primarily from the conversion to electronic meter reading, mitigated general cost increases.

Depreciation expense increased $8.3 million, or five percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased $257 million, or seven percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Other income decreased $16.3 million between periods. This was primarily due to negative returns on long-term investments (COLI) in the current twelve-month period ($7.3 million) compared to positive returns in the prior year's twelve-month period ($3.5 million) and lower interest income ($2.4 million) primarily due to the full recovery of previously deferred purchased gas cost receivables.

Net financing costs decreased $1.2 million between periods primarily due to lower average debt outstanding.

ATTACHMENT D

SOUTHERN CALIFORNIA GAS COMPANY
Plant Investment and Accumulated Depreciation
As of September 30, 2008

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE	NET BOOK VALUE
INTANGIBLE ASSETS				
301	Organization	$ 76,457	$ -	76,457
302	Franchise and Consents	540,453	0	540,453
	Total Intangible Assets	$ 616,910	$ -	$ 616,910
UNDERGROUND STORAGE:				
350	Land	$ 5,150,548	$ -	5,150,548
350	Storage Rights	17,740,334	16,435,363	1,304,970
350	Rights-of-Way	25,354	12,103	13,252
351	Structures and Improvements	32,601,424	16,701,758	15,899,666
352	Wells	185,744,515	127,322,174	58,422,340
353	Lines	81,810,254	90,861,189	(9,050,935)
354	Compressor Station and Equipment	105,734,838	66,878,621	38,856,217
355	Measuring And Regulator Equipment	4,947,716	1,371,684	3,576,033
356	Purification Equipment	78,778,681	56,570,776	22,207,905
357	Other Equipment	12,518,933	2,522,942	9,995,991
	Total Underground Storage	$ 525,052,597	$ 378,676,611	$ 146,375,987
TRANSMISSION PLANT- OTHER:				
365	Land	$ 2,666,000	$ -	2,666,000
365	Land Rights	20,456,148	12,775,309	7,680,839
366	Structures and Improvements	28,400,464	19,974,395	8,426,069
367	Mains	946,652,875	480,541,770	466,111,105
368	Compressor Station and Equipment	173,632,362	93,456,981	80,175,381
369	Measuring And Regulator Equipment	43,320,116	24,435,356	18,884,759
371	Other Equipment	3,929,461	1,932,218	1,997,243
	Total Transmission Plant	$ 1,219,057,426	$ 633,116,030	$ 585,941,395
DISTRIBUTION PLANT:				
374	Land	$ 28,254,797	$ -	28,254,797
374	Land Rights	2,646,609	12,264	2,634,345
375	Structures and Improvements	194,589,155	47,932,144	146,657,012
376	Mains	2,795,999,835	1,565,788,057	1,230,211,778
378	Measuring And Regulator Equipment	59,609,620	40,644,856	18,964,764
380	Services	1,929,150,221	1,539,623,093	389,527,128
381	Meters	403,344,297	116,959,456	286,384,841
382	Meter Installation	242,731,655	151,971,188	90,760,467
383	House Regulators	108,942,019	43,907,935	65,034,084
387	Other Equipment	22,739,203	18,285,253	4,453,950
	Total Distribution Plant	$ 5,788,007,411	$ 3,525,124,246	$ 2,262,883,165
GENERAL PLANT:				
389	Land	$ 1,243,021	$ -	1,243,021
389	Land Rights	74,300	-	74,300
390	Structures and Improvements	105,788,713	89,693,563	16,095,150
391	Office Furniture and Equipment	350,954,218	197,409,173	153,545,045
392	Transportation Equipment	1,888,635	1,292,886	595,749
393	Stores Equipment	106,344	105,342	1,002
394	Shop and Garage Equipment	52,030,000	22,810,899	29,219,101
395	Laboratory Equipment	6,948,704	4,132,558	2,816,146
396	Construction Equipment	231,332	68,556	162,775
397	Communication Equipments	68,512,275	37,158,923	31,353,352
398	Miscellaneous Equipment	3,987,669	(1,722,686)	5,710,355
	Total General Plant	$ 591,765,210	$ 350,949,214	$ 240,815,996
	Grand Total	$ 8,124,499,554	$ 4,887,866,101	$ 3,236,633,453

ATTACHMENT E

SOUTHWEST GAS CORPORATION
CALIFORNIA
NET GAS PLANT
SEPTEMBER, 2008

Line No.	Description	FERC Account Number	Ending Gross Plant Balance	Ending Accum Depr. Balance	
	(a)	(b)	('c)	(d)	
	Intangible Plant				
1	Organization	301	$ -	$ -	$
2	Intangible Plant	302	33,007	33,007	
2	Miscellaneous Intangible Plant	303	33,542	33,542	
3	Total Intangible Plant		$ 66,549	$ 66,549	$
	Distribution Plant				
4	Land & Land Rights	374.1	$ 17,149	$ -	$
5	Rights of Way	374.2	104,703	57,151	
6	Structures & Improvements	375	7,782	7,448	
7	Mains	376	192,290,344	78,923,398	
8	Measuring & Reg. Stat. Equip./General	378	6,542,071	4,980,289	
9	Measuring & Reg. Stat. Equip./City Gate	379	31,257,844	10,360,332	
10	Services	380	106,853,158	63,471,175	
11	Meters	381	36,640,903	10,377,213	
12	Industrial Measuring & Reg. Stat. Equip.	385	894,705	338,158	
13	Miscellaneous Equipment	387	29,706	29,706	
14	Total Distribution Plant		$ 374,638,364	$ 168,544,870	$
	General Plant				
15	Land & Land Rights	389	$ 985,388	$ (69,137)	$
16	Structures & Improvements/Owned	390.1	8,318,309	2,331,167	
17	Structures & Improvements/Leased	390.2			
17	Office Furniture & Fixtures	391	639,645	(66,405)	
18	Computer Software & Hardware	391.1	1,930,778	180,324	
19	Transportation Equipment/Motor Vehicles	392.1	5,509,537	2,298,204	
20	Stores Equipment	393	190,868	39,356	
21	Tool, Shop, & Garage Equipment	394	1,152,308	172,846	
22	Laboratory Equipment	395	115,842	39,548	
23	Power Operated Equipment	396	1,260,606	581,897	
24	Communication Equipment	397	569,732	194,563	
25	Communication Equipment/Telemetry	397.2	170,684	170,684	
26	Miscellaneous Equipment	398	183,542	(13,701)	
27	Total General Plant		$ 21,027,239	$ 5,859,348	$
28	Total Gas Plant in Service		$ 395,732,152	$ 174,470,767	$

Net Plant
(e)
-
-
-
-
17,149
47,552
334
113,366,947
1,561,782
20,897,512
43,381,983
26,263,689
556,547
-
206,093,494
1,054,524
5,987,141
-
706,050
1,750,454
3,211,333
151,512
979,463
76,294
678,709
375,168
-
197,243
15,167,891
221,261,385

ATTACHMENT F

SOUTHERN CALIFORNIA GAS COMPANY
SUMMARY OF EARNINGS
NINE MONTHS ENDED SEPTEMBER 30, 2008
(DOLLARS IN MILLIONS)

Line No.	Item	Amount
1	Operating Revenue	$3,784
2	Operating Expenses	3,558
3	Net Operating Income	$226
4	Weighted Average Rate Base	$2,694
5	Rate of Return*	8.68%

*Authorized Cost of Capital

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G), PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), AND SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF WHOLESALE TRANSPORTATION AND EXCHANGE AGREEMENTS AND RELATED RELIEF** on all parties included on the list appended to the original document filed with the Commission.

Dated at Los Angeles, California this 15th day of December, 2008.

/s/ Rose Mary Ruiz
Rose Mary Ruiz

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