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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

WILLIAM A. MUNDELL
 CHAIRMAN
 JAMES M. IRVIN
 COMMISSIONER
 MARC SPITZER
 COMMISSIONER

2002 DEC 20 P 12: 50

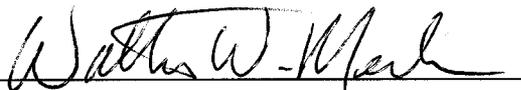
AZ CORP COMMISSION
 DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION FOR) DOCKET NO.
 APPROVAL OF ACQUISITION PLAN AND,)
 IF APPROPRIATE, WAIVER OF SELECTED) G-01551A-02-0425
 PROVISIONS OF THE AFFILIATE RULES.)

NOTICE OF FILING

Pursuant to the Procedural Order dated September 11, 2002, the ARIZONA UTILITY INVESTORS ASSOCIATION, INC. hereby provides notice of filing the direct testimony of Walter W. Meek in the above-captioned proceeding.

Respectfully submitted, this 20th day of December, 2002.


 Walter W. Meek, President

CERTIFICATE OF SERVICE

An original and ten copies of the foregoing Application were filed this 20th day of December, 2002, with:

Docket Control
 Arizona Corporation Commission
 1200 W. Washington Street
 Phoenix, AZ 85007

Copies of the referenced testimony were delivered this 20th day of December, 2002, to:

Arizona Corporation Commission
DOCKETED
 DEC 20 2002

DOCKETED BY	
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Jane L. Rodda, Esq., Hearing Division
Lisa Vandenberg, Esq., Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

A copy of the referenced testimony
was mailed or faxed this 20th day of
December, 2002, to:

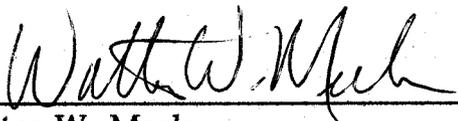
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Walter W. Meek

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DIRECT TESTIMONY

OF

WALTER W. MEEK

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Walter W. Meek. My business address is 2100 North Central Avenue, Suite 210, Phoenix, Arizona 85004.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am the president of the Arizona Utility Investors Association ("AUIA" or "Association"), a non-profit organization formed to represent the interests of shareholders and bondholders who are invested in utility companies that are based in or do business in the state of Arizona.

Q. ARE SOME AUIA MEMBERS SHAREHOLDERS OF SOUTHWEST GAS CORPORATION?

A. Yes. AUIA has approximately 6,000 members, including a number of common shareholders of Southwest Gas Corporation ("Southwest").

Q. WHAT IS YOUR BACKGROUND IN REPRESENTING SHAREHOLDER CONCERNS AND INTERESTS?

A. I have been president of AUIA for more than eight years. Prior to that, my consulting firm managed the affairs of the Pinnacle West Shareholders Association for 13 years. During this time we have represented shareholders in numerous rate cases and other regulatory matters and have published many position papers, newsletters and other documents in support of shareholder interests.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am here to represent the views of the equity owners of Southwest Gas Corporation regarding its proposed purchase of Black Mountain Gas Company ("BMG").

1 Q WHAT IS AUIA'S POSITION?

2 A. AUIA believes that this acquisition provides benefits to all parties and is
3 therefore in the public interest and we urge the Commission to approve
4 this transaction.

5

6 Q. CAN YOU ELABORATE?

7 A. Of course.

8 In the first place, the BMG service area is poised for significant future
9 population growth and in that circumstance, we believe consumers there
10 will be better served ultimately by a larger gas provider and one that has a
11 major presence in the metropolitan area and in the state.

12 In addition, BMG customers will benefit eventually from lower Southwest
13 rates and from a combined natural gas portfolio and purchased gas bank
14 balance.

15 BMG ratepayers will also benefit from customer service programs and
16 some efficiencies that are not currently available to BMG as a stand-alone
17 business unit. Such programs include low-income rates, home
18 weatherization, free appliance connections and an equal payment plan.

19 Although the number of new customers is not large, this transaction also
20 provides Southwest with an opportunity to broaden its customer base
21 without significant initial outlays for new infrastructure.

22

23 Q. DO YOU HAVE OPINIONS ABOUT THE STAFF'S PROPOSED
24 CONDITIONS?

25 A. Yes, some of them, but not all. I can comment on them in the order in
26 which they appear in the Staff memo of November 26.

27

28 Q. WHAT ABOUT CONDITION NO. 1?

1 A. The Staff would prohibit Southwest from ever seeking recovery of any
2 portion of the purchase price that is above book value. While it makes me
3 feel queasy to adopt conditions that reach into infinity, there is no question
4 that premiums are simply off the table today. AUIA accepts the premium
5 as a shareholder responsibility and doesn't object to this condition.
6

7 Q. CONDITION NO. 2?

8 A. This is a different animal. Assuming that the Commission finds that this
9 acquisition is in the public interest, there is no obvious reason why
10 acquisition costs could not be considered in a rate case where the
11 Commission can determine whether they were reasonable or not. AUIA
12 objects to this condition.
13

14 Q. CONDITION NO. 3?

15 A. Here, Staff inappropriately attempts to tie a service quality requirement to
16 BMG's past experience. This seems inappropriate. In the first place, some
17 aspects of Staff's service requirement, such as the frequency of service
18 complaints, are not entirely within Southwest's control. Furthermore,
19 Southwest should be required to meet one service standard, not two. BMG
20 customers should receive the same level of service that all other SWG
21 customers receive and that is how this condition should be applied.
22

23 Q. CONDITION NO. 5?

24 A. This seems to be the most contentious issue on the table. Staff proposes
25 that BMG customers begin paying Southwest rates at the time BMG is
26 dissolved as a corporation, without a rate case. Southwest wants to
27 postpone rate adjustments until it has completed a general rate case and is
28 willing to postpone BMG's dissolution until that time.
29 Staff seems intent on providing a monetary benefit to BMG customers to
30 support a finding that the transaction is in the public interest. However,
31 there are a number of elements that make up such a finding and immediate
32 gratification is not a requirement.

1 It is commonplace for a merged entity to wait a year or longer before filing
2 a rate case in order to get systems in place, create an operating record and
3 establish a test year. In the case of BMG, it is probable that Southwest will
4 incur capital expenses a year or two into the acquisition that should be
5 included in rate base.

6 AUIA supports the company's position and would suggest that Southwest
7 be required to file a rate case within a specified time, perhaps three years.
8

9 Q. CONDITION NO. 6?

10 A. Here, the Staff proposes to combine the PGA mechanisms at the dissolution
11 of BMG. Since this is not a rate matter, it is appropriate to merge the PGAs
12 when the acquisition is complete, as Southwest suggests. We believe that
13 will produce some immediate benefit for BMG customers.
14

15 Q. CONDITION NO. 10?

16 A. Staff proposes to limit the practice of squeezing pipelines during emergency
17 procedures. This is certainly outside of AUIA's normal experience, but we
18 are mystified as to why this condition is included in this proceeding.
19 Whatever the technical merits of this proposal may be, it seems clear that it
20 is better suited to rulemaking. AUIA is aware that this technique is at issue
21 in a pending show cause proceeding against Southwest. There, at least, an
22 evidentiary record can be created, unlike this proceeding. This condition
23 should be eliminated.
24

25 Q. IS THAT THE EXTEND OF YOUR COMMENTS ON CONDITIONS?

26 A. Yes.
27

28 Q. DO YOU HAVE ANY CONCLUDING REMARKS?

29 A. Yes. While we believe that this transaction is in the public interest and will
30 provide long-term benefits for Southwest and BMG customers, it should be
31 kept in perspective.

32 BMG currently serves about 7,000 customers. That is about 16 percent of
33 the annual growth Southwest experiences in Arizona. This acquisition is
34 not the pot of gold at the end of the rainbow.

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If the Commission believes that BMG's customers will fare better in the long run as customers of Southwest Gas, it should be hesitant to burden this transaction with conditions that have marginal value but which could keep it from happening.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.