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ORIGINAL



0000055268

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

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Arizona Corporation Commission 2003 FEB -6 A 11: 35

DOCKETED

FEB 06 2003

AZ CORP COMMISSION  
DOCUMENT CONTROL

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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 in this matter, the ARIZONA UTILITY INVESTORS ASSOCIATION, INC. (AUIA) hereby provides notice of filing the rebuttal testimony of Walter W. Meek in the above-captioned proceeding.

Respectfully submitted, this 6th day of February, 2003.

Walter W. Meek, President

CERTIFICATE OF SERVICE

An original and 13 copies of the referenced testimony were filed this 6thth day of February, 2003, with:

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

Copies of the referenced testimony were delivered this 6<sup>th</sup> day of February, 2003, to:

Ernest Johnson, Esq., Utilities Division  
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 6<sup>th</sup> day  
of February, 2003, to:

Andrew W. Bettwy, Esq.  
Associate General Counsel  
Southwest Gas Corporation  
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Las Vegas, Nevada 89102

John Reiber  
Black Mountain Gas Company  
P.O. Box 427  
Cave Creek, AZ 85327

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Walter W. Meek  
Walter W. Meek

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REBUTTAL 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"). Specifically, my testimony will rebut certain positions taken by Staff witnesses Joel M. Reiker and Robert G. Gray.

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Q. HAVE YOU FILED TESTIMONY PREVIOUSLY IN THIS PROCEEDING?

A. Yes, but AUIA has withdrawn my previously filed direct testimony in response to procedural objections raised by Staff.

Q. DOES AUIA SUPPORT SOUTHWEST'S MERGER PROPOSAL?

A. In general, yes. AUIA believes that this acquisition provides benefits to all parties and is, therefore, in the public interest. We urge the Commission to approve this transaction.

Q. CAN YOU ELABORATE?

A. Of course.

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

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

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

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

Q. DOES SOUTHWEST HAVE A SUPERIOR FINANCIAL PROFILE?

A. Not really. As Staff witness Reiker indicated, both Xcel Energy, the parent of BMG, and Southwest have mediocre credit ratings from Standard & Poor's and Moody's investors Service. In the eyes of the rating agencies, Southwest suffers from high leverage, regulatory lag and growth expenditure commitments, while Xcel suffers from excessive exposure to its financially troubled unregulated energy marketing affiliate, NRG.

1                   However, as Mr. Reiker points out, this transaction could protect BMG  
2                   customers in the near term from continuing Xcel credit difficulties related to  
3                   NRG.

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5                   Q. DO YOU HAVE A REACTION TO THE STAFF'S OVERALL POSITION?

6                   A. Yes. AUIA agrees with Staff's finding that the proposed merger is in the  
7                   public interest and its recommendation that the Commission should  
8                   approve the application. However, Staff recommends that the  
9                   Commssion's approval be contingent on 14 conditions, and AUIA has  
10                  comments about five of them. The first three are sponsored by Mr. Reiker  
11                  and the last two are sponsored by Mr. Gray.

12  
13                  Q. WHAT ABOUT CONDITION NO. 1?

14                 A. The Staff would prohibit Southwest from ever seeking recovery of any  
15                 portion of the purchase price that is above book value. While it makes us  
16                 feel queasy to adopt conditions that reach into infinity, there is no question  
17                 that premiums are simply off the table today. AUIA accepts the premium  
18                 as a matter that is between shareholders and company management and  
19                 doesn't object to this condition.

20  
21                 Q. CONDITION NO. 2?

22                 A. This is a different matter. Staff intends to prohibit Southwest from  
23                 recovering any costs associated with the acquisition. Assuming that the  
24                 Commission finds this acquisition to be in the public interest, there is no  
25                 reason why acquisition costs should not be considered in a rate case where  
26                 the Commission can determine whether they were reasonable or not.  
27                 AUIA objects to this condition.

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29                 Q. CONDITION NO. 3?

30                 A. It is not inappropriate for Staff to require that Southwest's quality of service  
31                 not diminish as a result of the acquisition. However, it is unclear whether  
32                 the standard to be applied is that experienced by Southwest's current  
33                 customers or the BMG customer group. The bottom line is that all of  
34                 Southwest customers should receive the same standard of service and it

1 should not deteriorate after this transaction is completed. AUIA has no  
2 objection to a service condition that is applied uniformly.

3  
4 Q. CONDITION NO. 5?

5 A. This condition, sponsored by Mr. Gray, seems to be the most contentious  
6 issue on the table.

7 Staff proposes that BMG customers begin paying Southwest's lower margin  
8 rates at the time BMG is dissolved as a corporation. Staff's condition would  
9 require the dissolution of BMG by July 1, 2004 or that a BMG rate case be  
10 filed on that date.

11 Initially, Southwest indicated its intent to dissolve within about 12 months  
12 after the purchase is completed. But Southwest prefers to postpone rate  
13 adjustments until it has completed a general rate case and it may wish to  
14 postpone BMG's dissolution until that time.

15 Staff seems intent on providing a monetary benefit to BMG customers to  
16 support a finding that the transaction is in the public interest. However,  
17 there are a number of elements that make up such a finding and immediate  
18 rate gratification is not a requirement.

19 It is commonplace for a merged entity to wait a year or longer before filing  
20 a rate case in order to get systems in place, create an operating record and  
21 establish a test year. In the case of BMG, it would make no sense to conduct  
22 a stand-alone rate case in 2004 apart from Southwest Gas.

23  
24 Q. WHAT ALTERNATIVE DO YOU SUGGEST FOR CONDITION NO. 5?

25 A. Because Southwest's last rate case was based on a 1999 test year and the  
26 company typically operates on a three-year cycle, it is reasonable to expect  
27 Southwest to file an application for a general rate increase in 2004, based on  
28 a 2003 test year. Therefore, a more reasonable condition would be to make  
29 dissolution of BMG concurrent with the implementation of new rates and to  
30 require Southwest to file a rate case before the end of 2004.

31  
32 Q. DO YOU HAVE COMMENTS ABOUT CONDITION NO. 6?

33 A. Here, the Staff proposes to combine the purchased gas adjustment (PGA)  
34 mechanisms at the dissolution of BMG. Since this is not a rate matter, it is

1 appropriate to merge the PGAs when the acquisition is complete, as  
2 Southwest suggests. We believe that could produce some immediate  
3 benefit for BMG customers.  
4

5 Q. IS THAT THE EXTENT OF YOUR COMMENTS ON CONDITIONS?

6 A. Yes.  
7

8 Q. DO YOU HAVE ANY CONCLUDING REMARKS?

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

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

15 Yet, Staff has proposed at least three conditions that have negative financial  
16 consequences for Southwest, namely: Condition No. 1, prohibiting  
17 recovery of any acquisition adjustment; No. 2, prohibiting recovery of any  
18 acquisition costs; and No. 5, requiring the Company to install reduced rates  
19 at BMG by the middle of next year or file an essentially useless rate case.

20 If the Commission believes that BMG's customers will fare better in the  
21 long run as customers of Southwest Gas, it should find this acquisition to be  
22 in the public interest and it should hesitate to burden the transaction with  
23 conditions that have marginal value but which could keep the merger from  
24 taking place.  
25

26 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

27 A. Yes, it does.  
28