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BEFORE THE ARIZONA CORPORATION COMMISSION

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- 5 **MICHAEL GLEASON**
Commissioner
- 6 **JEFFREY HATCH-MILLER**
Commissioner

Arizona Corporation Commission
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AZ CORP COMMISSION
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8 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-01551A-02-0425
 9 SOUTHWEST GAS CORPORATION FOR)
 10 APPROVAL OF ACQUISITION PLAN AND, IF)
 11 APPROPRIATE, WAIVER OF SELECTED)
 12 PROVISIONS OF THE AFFILIATE RULES)

NOTICE OF FILING

13 SOUTHWEST GAS CORPORATION hereby provides notice of filing
 14 the REBUTTAL TESTIMONY of Edward A. Janov, Bennett D. Burke, and
 15 Edward B. Giesecking, pursuant to the Arizona Corporation
 16 Commission's Procedural Order dated September 11, 2002.

17 RESPECTFULLY SUBMITTED this 5th day of February 2003.

18 *Randall W. Sable*
 19 _____
 20 Randall W. Sable
 21 Manager, State Regulatory Affairs
 22 Southwest Gas Corporation
 23 5241 Spring Mountain Road
 24 Las Vegas, Nevada 89150-0002
 25 702.364.3079

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2 **CERTIFICATE OF FILING AND SERVICE**

3 I, Valerie Ontiveroz, hereby certify that, on this 5th day of
4 February, the original and fifteen copies of the foregoing
5 Notice of Filing of Rebuttal Testimony are being filed with
6 Docket Control, Arizona Corporation Commission, 1200 West
7 Washington Street, Phoenix, Arizona 85007-2996, and that the
8 foregoing is being served by mailing a copy thereof, prepaid,
9 via first class mail or overnight service to the parties on the
10 attached service list.

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13 Valerie Ontiveroz
14 Southwest Gas Corporation
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ORIGINAL

**SOUTHWEST GAS CORPORATION
DOCKET NO. G-01551A-02-0425**

PREPARED REBUTTAL TESTIMONY

OF

EDWARD A. JANOV

BENNETT D. BURKE

EDWARD B. GIESEKING

**ON BEHALF OF
SOUTHWEST GAS CORPORATION**

February 5, 2003

BEFORE THE ARIZONA CORPORATION COMMISSION

Prepared Rebuttal Testimony
of
EDWARD A. JANOV

Q. 1 Please state your name and business address.

A. 1 My name is Edward A. Janov. I am the Vice President/
Finance and Treasurer for Southwest Gas Corporation
(Southwest or the Company). My business address is
5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002.

Q. 2 Please state your educational background and business
experience.

A. 2 I graduated from King's College in Wilkes-Barre,
Pennsylvania in 1976 with a Bachelor of Science Degree in
Accounting. I became a Certified Public Accountant in
1980 and am a member of the American Institute of
Certified Public Accountants and the District of Columbia
Institute of Certified Public Accountants.

From 1976 through 1986, I was employed by the
Federal Energy Regulatory Commission (FERC) in
Washington, D.C. and San Francisco, California. I worked
in the Office of the Chief Accountant and became an audit
manager in 1980. My responsibilities included the audits
of gas, oil, and electric utilities for compliance with
generally accepted accounting principles (GAAP) and FERC
requirements.

1 In April 1986, I was hired by Southwest and worked
2 in the Rate Department. In April 1987, I became the
3 Assistant Controller. I was promoted to Controller in
4 1994, to Vice President/Controller and Chief Accounting
5 Officer in 1996, and to my current position in 2002. My
6 current areas of responsibility include treasury
7 services, corporate planning, and corporate purchasing.

8 Q. 3 Have you previously provided testimony before regulatory
9 agencies?

10 A. 3 Yes. I have previously testified on behalf of the Company
11 before the Arizona Corporation Commission (Commission),
12 the Public Utilities Commission of Nevada, and the
13 California Public Utilities Commission.

14 Q. 4 What is the purpose of your prepared rebuttal testimony?

15 A. 4 The purpose of my rebuttal testimony is to support the
16 Company's application for approval of the acquisition of
17 Black Mountain Gas Company (Black Mountain).
18 Specifically, I am providing the Company's response to
19 the public interest concerns implicit within the fourteen
20 conditions Commission Utilities Division Staff (Staff)
21 seek to impose upon the acquisition of the Black Mountain
22 operations. Along with the other Southwest witnesses, I
23 will provide the Commission with the relevant information
24 to demonstrate the fitness of Southwest as an acquiring
25 entity; the benefits Black Mountain customers will derive
26 from the acquisition by Southwest; why acquisition of
27 Black Mountain by Southwest is in the public interest,

1 even absent the imposition of these proposed conditions;
2 and why imposition of some of these conditions may
3 jeopardize the acquisition or are contrary to the best
4 interests of Black Mountain and Southwest customers.

5 In particular, my testimony demonstrates that the
6 transaction would not impair the financial status of
7 Southwest; otherwise prevent it from attracting capital
8 at fair and reasonable terms; or impair the ability of
9 Southwest to provide safe, reasonable, and adequate
10 services (see R14-2-804 of Arizona Administrative Code).
11 Other Southwest witnesses will respond to specific Staff
12 conditions and recommendations.

13 Q. 5 Please summarize the application.

14 A. 5 Southwest applied for approval of the acquisition of the
15 common stock of Black Mountain; the subsequent transfer
16 of assets of Black Mountain to Southwest, including the
17 Certificates of Convenience and Necessity (CC&N) granted
18 to Black Mountain; and the eventual dissolution of Black
19 Mountain. Black Mountain provides natural gas and propane
20 service within the state of Arizona as a public service
21 corporation. Xcel Energy Inc. (Xcel), a Minnesota
22 corporation, owns one hundred percent (100%) of the
23 outstanding shares of Black Mountain. Southwest and Xcel
24 have executed a stock purchase agreement, by which
25 Southwest has agreed to purchase and Xcel has agreed to
26 sell those shares. Southwest intends to own the shares
27 for a limited period of time (estimated at approximately

1 twelve months) prior to transferring all of the assets of
2 Black Mountain to Southwest.

3 It is Southwest's intention to dispose of all of
4 the propane facilities in the Page, Arizona area,
5 including both the Commission-jurisdictional facilities,
6 as well as the non-utility facilities, as soon as
7 practical.

8 Q. 6 Please briefly describe Black Mountain.

9 A. 6 Black Mountain is a natural gas and propane utility with
10 a natural gas division located in Cave Creek, Arizona and
11 a propane division located in Page, Arizona. The Cave
12 Creek division serves approximately 7,900 natural gas
13 customers in a rapidly growing service territory located
14 just north of Phoenix. This service territory is nearly
15 surrounded by the existing Southwest service area. Black
16 Mountain serves approximately 2,400 propane customers.

17 Q. 7 Why is Southwest interested in acquiring Black Mountain?

18 A. 7 Southwest is primarily interested in acquiring the Cave
19 Creek natural gas utility business of Black Mountain. To
20 acquire these assets, at Xcel's insistence, Southwest
21 must first purchase Black Mountain in its entirety.
22 Because of its size, this transaction is not an
23 "acquisition" in the traditional sense of a major merger
24 or utility acquisition. Such legal distinctions aside,
25 this transaction is best viewed as a strategic
26 acquisition of an existing customer base with related
27 infrastructure in a service territory, essentially,

1 already served by Southwest.

2 By analogy, this transaction is similar to
3 Southwest extending service to a new subdivision or
4 development. Still, operating efficiencies will be
5 realized as the Cave Creek natural gas operations are
6 merged into the Southwest Central Arizona Division.

7 Q. 8 How does this acquisition compare to the scale of
8 Southwest's current operations?

9 A. 8 While the significance of adding nearly 8,000 customers
10 and related facilities is not to be underestimated,
11 Southwest currently adds approximately 60,000 customers
12 per year to its nearly 1.5 million customer base (at
13 December 31, 2002). This includes approximately 30,000
14 new customers per year in Arizona, where Southwest serves
15 over 800,000 customers in a rapidly growing and expanding
16 service territory. The addition of 7,900 new customers
17 via this transaction is akin to what Southwest currently
18 adds to its Arizona customer base every 90 days, and to
19 its Companywide customer base every month and a half.

20 Q. 9 What operating efficiencies will be realized as the Cave
21 Creek natural gas operations are merged into Southwest?

22 A. 9 Southwest believes a number of operating efficiencies
23 will result from this acquisition. Although the
24 transaction is relatively small, the benefits are readily
25 apparent.

26 Southwest views this transaction as a "win-win" for
27 all parties, including customers and the Commission. In

1 that respect, it is somewhat puzzling why the Staff is
2 proposing to attach fourteen conditions to the
3 acquisition approval. No other party to this proceeding
4 has proposed any significant conditions for approval of
5 the acquisition and several of the Staff's proposals
6 could actually diminish or negate the expected benefits
7 or even impose greater costs than are currently borne by
8 customers.

9 Aside from the benefit of dealing with one
10 integrated utility, Southwest can bring higher levels of
11 customer service, operation, and pipeline safety to the
12 Black Mountain service territory. This is not meant to
13 disparage Black Mountain or Xcel. It is simply meant to
14 support the fact that Southwest provides a more
15 sophisticated level of service than Black Mountain.
16 Furthermore, the Commission will be able to conserve
17 resources and maximize consistency by dealing with only
18 one regulated entity rather than two. This, in my
19 opinion, creates a "win-win" for the Commission and the
20 Black Mountain customers and demonstrates why the
21 acquisition is in the public interest.

22 Q. 10 Are operating efficiencies, cost savings, rate
23 reductions, or the like required as a condition to a
24 utility acquisition?

25 A. 10 Although they may be preferred, there is no such
26 regulatory requirement to my knowledge. In fact, my
27 understanding is that the Commission must simply find

1 that an acquisition is in the public interest.

2 Q. 11 How does Southwest intend to proceed if the acquisition
3 is approved?

4 A. 11 With respect to the Cave Creek natural gas system, a
5 transition period will be required to assimilate all of
6 the Black Mountain customer records, financial records,
7 and operating data into Southwest recordkeeping systems.

8 During this transition, conversion issues are
9 likely to be encountered due to what appears to be, at
10 least by Southwest standards, limited or inconsistent
11 records. Southwest anticipates there will be some
12 incremental costs associated with this data conversion
13 and upgrade. Customer billing information and systems
14 mapping are two examples where differences in
15 recordkeeping by Black Mountain deviate from Southwest's
16 standards and systems. Not unlike buying a resale home,
17 Southwest expects to discover other similar issues after
18 the acquisition.

19 Q. 12 Does Southwest have to consummate this acquisition if it
20 concluded that the conditions imposed on it by the
21 Commission were too onerous?

22 A. 12 No. Southwest has preserved the right in the Stock
23 Purchase Agreement to terminate this transaction if the
24 terms and conditions of service and cost recovery
25 authorized by the Commission are not reasonably
26 acceptable, as determined by Southwest. As stated
27 previously, Southwest initially viewed this transaction

1 as a "win-win", which would receive rapid regulatory
2 approval. Southwest would have to re-evaluate the
3 economics of proceeding further, and the concessions that
4 would be required, if the Commission were to adopt the
5 Staff's proposed conditions and recommendations before
6 consummating a transaction for the addition of
7 approximately 7,900 new natural gas customers.

8 Q. 13 What is Southwest proposing?

9 A. 13 Southwest is proposing that the existing Black Mountain
10 general margin rates remain in effect until the next
11 Southwest general rate case. At that time, the transition
12 should be complete and the majority of operational and
13 system improvement issues will be known or resolved. The
14 fair value of Southwest assets devoted to public service
15 can be determined by the Commission, and the general
16 rates of both companies can be combined at that time, if
17 that is the Commission preference.

18 Q. 14 Are there any parties, other than Staff, who have
19 objected to this plan?

20 A. 14 No, not that I am aware of at this writing. In fact, the
21 Residential Utility Consumer Office (RUCO) has endorsed
22 Southwest acquiring the Black Mountain system without
23 suggesting additional conditions or burdens. The Arizona
24 Utility Investors Association (AUIA) also supports the
25 acquisition as proposed by Southwest.

26 Q. 15 How does Southwest anticipate funding the proposed
27 acquisition?

- 1 A. 15 Because of the relatively small size of the transaction,
2 Southwest will finance the acquisition by accessing its
3 currently available \$250 million working capital
4 facility.
- 5 Q. 16 Will this transaction in any way impede the ability of
6 Southwest to attract capital for other continuing
7 business needs at fair and reasonable terms?
- 8 A. 16 No.
- 9 Q. 17 What does Southwest intend regarding the discrete
10 regulated and non-regulated propane businesses of Black
11 Mountain?
- 12 A. 17 Because Southwest is not in the propane business, and
13 does not want to be, the Company intends to sell the
14 propane assets of Black Mountain as soon as feasibly
15 possible.
- 16 Q. 18 Are there ready buyers for the propane operations?
- 17 A. 18 Yes. Southwest has already been contacted by a number of
18 potential buyers. Per the Stock Purchase Agreement,
19 Southwest is prevented from initiating any detailed
20 discussions with these potential buyers. However,
21 Southwest is hopeful that a transaction can be
22 consummated within approximately one year of the closing
23 of the Black Mountain acquisition.
- 24 Q. 19 How will Southwest operate the propane businesses in the
25 interim?
- 26 A. 19 Southwest intends to run the propane businesses "as is"
27 using existing rates and terms of service.

1 Q. 20 Do you have any final comments?

2 A. 20 Yes. This acquisition should be approved by the
3 Commission without significant additional conditions,
4 such as those proposed by Staff. The transaction is
5 relatively small, yet immediate and future benefits are
6 readily apparent. Southwest believes it should be given
7 the opportunity to operate Black Mountain, effect a
8 smooth transition, and identify any required system
9 improvements before adjusting the Black Mountain general
10 margin rates; which were just recently found just and
11 reasonable by the Commission (March 2001). This will also
12 provide the Company the opportunity to sell the propane
13 businesses. A reasonable, normalized year of historical
14 test data can also be established for the consolidated
15 operations of the two companies. All of this can be
16 accomplished prior to the next Southwest general rate
17 case.

18 Southwest has been providing safe and
19 cost-effective gas service throughout the southwestern
20 United States for more than 70 years and in Arizona for
21 nearly a half century. Southwest is financially sound and
22 has access to reasonably-priced capital to fund and
23 operate these properties. The greater presence and vested
24 interest Southwest has in Arizona will provide
25 economy-of-scale benefits to the Commission and the
26 natural gas customers of Black Mountain, which will
27 ultimately result in a "win-win" for all involved.

1 Q. 21 Does this conclude your prepared rebuttal testimony?

2 A. 21 Yes, it does.

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BEFORE THE ARIZONA CORPORATION COMMISSION

Prepared Rebuttal Testimony
of
BENNETT D. BURKE

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- 7 Q. 1 Please state your name and business address.
- 8 A. 1 My name is Bennett D. Burke. My business address is
9 9 South 43rd Avenue, Phoenix, Arizona 85009-4633.
- 10 Q. 2 By whom are you employed and in what capacity?
- 11 A. 2 I am employed by Southwest Gas Corporation (Southwest or
12 the Company) as the director of Gas Operations for the
13 Central Arizona Division.
- 14 Q. 3 Please state your educational background and business
15 experience.
- 16 A. 3 I hold a Bachelor of Science degree in Business
17 Administration from the University of Phoenix, which I
18 obtained in 1991. I have worked for Southwest since 1985,
19 but began my utility career working for Southwest's
20 predecessor company, Arizona Public Service Company
21 (APS), in 1981. I began my employment at APS as a meter
22 reader and held positions of increasing responsibility in
23 the meter reading department until coming to work for
24 Southwest in 1985. At Southwest, I have served as a meter
25 reading supervisor, a human resources analyst, as a
26 district manager in two Arizona divisions - Wickenburg
27 and Casa Grande - and as a director in two Arizona

1 divisions - director of District Operations in the
2 Southern Arizona Division, and in my current position as
3 director of Gas Operations in Central Arizona.

4 Q. 4 Please describe the nature of your present job
5 responsibilities and duties with Southwest.

6 A. 4 As director of Gas Operations for the Central Arizona
7 Division, I oversee the installation, operation and
8 maintenance of Southwest's Central Arizona gas
9 distribution system. This includes responsibility for the
10 following departments: Engineering, Construction,
11 Technical Services, and Division Compliance; and ultimate
12 responsibility for the performance of the 265 employees
13 of the Gas Operations workforce.

14 Q. 5 Have you previously testified before any regulatory
15 commission?

16 A. 6 No, I have not.

17 Q. 7 What is the purpose of your prepared rebuttal testimony
18 in this proceeding?

19 A. 7 The purpose of my rebuttal testimony is to provide
20 Southwest's response to the operations and safety issues
21 asserted by Commission Staff (Staff) in its direct
22 testimony concerning Southwest's acquisition of the stock
23 of Black Mountain Gas Company (Black Mountain).

24 Q. 8 Will Southwest's responsibilities for the gas operations
25 of the Central Arizona Division change if the acquisition
26 is approved by the Commission?

27 A. 8 No, in general, they will not. Southwest will continue to

1 be responsible for ensuring that the gas distribution
2 system is well-designed, installed, operated, and
3 maintained. Southwest will also ensure that customers in
4 the newly-acquired Cave Creek service territory have the
5 opportunity to enjoy the high levels of customer
6 satisfaction and safety for which Southwest is well known
7 throughout the natural gas industry.

8 Q. 9 Have you reviewed the Staff's, Residential Utility
9 Consumers Office's (RUCO), and the Arizona Utility
10 Investor Association's (AUIA) testimonies in this
11 proceeding?

12 A. 9 Yes, I have.

13 Q. 10 Do you have any comments or rebuttal testimony related to
14 RUCO's or AUIA's testimonies.

15 A. 10 No, I do not. My rebuttal will focus solely on Staff's
16 testimony.

17 Q. 11 What has the Commission Staff recommended regarding
18 Southwest's acquisition of Black Mountain?

19 A. 11 The Staff has recommended approval of the acquisition
20 subject to fourteen specific conditions.

21 Q. 12 Have you reviewed those conditions that deal with
22 operations and safety issues?

23 A. 12 Yes, I have.

24 Q. 13 Which Staff Conditions involve operations and safety
25 issues?

26 A. 13 Staff Conditions 9 through 14 relate to operations and
27 safety issues.

1 Q. 14 Do the conditions suggested by Staff present any concerns
2 to Southwest?

3 A. 14 Yes. Southwest would require clarification and/or
4 revision to Staff Conditions 9 through 14 before they
5 could be accepted by the Company.

6 Q. 15 Please state what Staff is recommending in Condition 9.

7 A. 15 Staff is recommending that Southwest continue to maintain
8 the existing emergency isolation valves in all current
9 Black Mountain service areas.

10 Q. 16 Please describe any concern Southwest has with
11 Condition 9.

12 A. 16 At this time, Southwest has not had the opportunity to
13 fully review and evaluate the location and condition of
14 Black Mountain's existing emergency isolation valves.
15 However, Southwest's commitment has been, and will
16 continue to be, the safe operation of the distribution
17 system, including using all appropriate and necessary gas
18 control methods, which certainly include isolation
19 valves. That commitment will, of course, extend to the
20 Black Mountain system if Southwest is authorized to
21 acquire it. Southwest can commit to review the Black
22 Mountain valve isolation plan, and maintain those valves
23 which are appropriate, and install new valves as
24 necessary in accordance with Southwest Design Standards
25 and emergency response needs.

26 Emergency response, however, is not just having
27 valves installed in the distribution system. It is also

1 heavily dependent on the quick mobilization of
2 highly-trained and skilled workers and the use of
3 appropriate resources. Southwest, by virtue of its much
4 greater size and close proximity to Cave Creek, will
5 bring these considerable resources to bear on emergencies
6 in that area. Therefore, Southwest can see no reason why
7 Staff requires this specific recommendation or condition
8 be contained in any Commission order authorizing the
9 Black Mountain acquisition.

10 Mandating the maintenance of these particular
11 valves in perpetuity denies Southwest the ability to make
12 justified and well-reasoned changes to the system in the
13 future if needed. Southwest would recommend, instead, a
14 condition such as "Southwest will review and incorporate,
15 where appropriate, the Black Mountain valve isolation
16 plan into its existing valve isolation plan and will
17 maintain and improve that plan as necessary."

18 Q. 17 Please discuss Staff Condition 10, Staff's
19 recommendation, and Southwest's response.

20 A. 17 Staff Condition 10 states that, during the 2002 Code
21 Compliance Audit, Black Mountain stated it was installing
22 additional emergency isolation valves (approximately 34).
23 The Staff recommended that if, at the time of the Stock
24 transfer from Xcel Energy, Inc. to Southwest, Black
25 Mountain has not completed the installation of all the
26 currently-planned valves for the Cave Creek Division,
27 Southwest should complete the installation of those

1 specific valves no later than May 1, 2003. My testimony
2 regarding Staff Condition 10 and my recommendation is
3 substantially the same as my testimony for Staff
4 Condition 9. Rather than committing to the installation
5 of those specific valves, whose design and location
6 Southwest has not had the opportunity to fully review, it
7 would be preferable to fully evaluate the Black Mountain
8 valve isolation plan, and then ensure that valves are
9 installed which are necessary and appropriate for the
10 proper operation of the valve isolation plan in
11 accordance with Southwest standards and practices. This
12 will be of greater benefit to the current Black Mountain
13 customers than simply agreeing to install the 34 valves
14 previously discussed.

15 Again, Southwest can see no reason why this
16 recommendation needs to be specifically reflected in the
17 Commission's authorization of the acquisition. Southwest
18 is concerned that even though Black Mountain used good
19 planning and engineering criteria to place these valves
20 throughout its system, a few years from now their
21 location may not be appropriate or beneficial to
22 Southwest's emergency isolation plan.

23 Q. 18 Please describe Staff Condition 11 and its
24 recommendation.

25 A. 18 Staff Condition 11 states that Southwest shall not allow
26 the acquisition of Black Mountain to diminish staffing
27 that would result in service and/or safety degradation in

1 either the current Black Mountain or Southwest service
2 areas.

3 Q. 19 Does Southwest believe this condition is necessary and
4 reasonable?

5 A. 19 No, it is not necessary and could result in unintended
6 consequences. The Commission has not previously commented
7 on Southwest staffing levels in any of its other service
8 areas. Southwest recognizes that the Commission has a
9 strong interest in customer service and safety, and
10 Southwest shares that strong interest. However, Southwest
11 believes it is more appropriate for the Commission to
12 require it to maintain service and safety standards, and
13 not tie that requirement to staffing or other necessary
14 business decisions. Southwest successfully maintains its
15 existing systems with staffing levels it deems
16 appropriate, supported by technologies as well as
17 economies of scale for efficiencies, allowing Southwest
18 to adjust staffing levels as needed while still
19 maintaining high standards of service and safety.

20 Q. 20 Please describe Staff's Condition 12.

21 A. 20 Staff Condition 12 requires Southwest to continue to
22 maintain fully operational local field offices in the
23 cities of Cave Creek and Page, Arizona, as appropriate,
24 to maintain the quality of service.

25 Q. 21 Please describe or explain Southwest's concern with Staff
26 Condition 12.

27 A. 21 As I noted in my response to Staff Condition 11,

1 Southwest believes this is a business decision that it
2 should be able to make based on its experience in
3 operating its other natural gas distribution systems in
4 Arizona. It would not be in the customers' interests for
5 a condition like this to interfere with a potentially
6 sound business decision to relocate or combine a field
7 office sometime in the future, by implying that local
8 field offices must be forever maintained in certain
9 locations. The Commission should provide Southwest with
10 the flexibility to determine the appropriate location and
11 capabilities of its operations centers. Perhaps that is
12 implied by the words "as appropriate" in Staff's
13 condition and recommendation, but that is not clear.
14 Southwest believes it should be able to use its best
15 judgment in locating its offices and operations centers;
16 and not be foreclosed from making sound and
17 cost-efficient and cost-effective business decisions
18 while maintaining the high standards of safety and
19 service the Company's customers rely upon.

20 Q. 22 Please describe Staff Condition 13.

21 A. 22 Staff recommends that Southwest must continue Black
22 Mountain's current policy of not using contract personnel
23 for the performance of underground pipeline locating. In
24 essence, Staff is stating that Southwest must use its own
25 staffing resources for this work task.

26 Q. 23 Please describe Southwest's concerns with Staff
27 Condition 13.

1 A. 23 Southwest does not see any basis for this recommendation,
2 other than Staff's apparent assumption that well-trained
3 contract line locators would be less accurate than
4 utility employees. In fact, in Central Arizona,
5 Southwest's contract line locators' success ratio mirrors
6 the Company locators' success ratio. In Arizona,
7 Southwest procedures require all locators, both contract
8 and Company, to use two methods of locating. That means
9 that both contract and Company locators will use maps and
10 records as well as electronic instruments to locate gas
11 lines. Then, if any discrepancy exists between the
12 indicated facility location based upon those two methods,
13 both contract and Company locators are required to have
14 Southwest employees dig up and expose the line as part of
15 the line location process. Southwest also has written
16 requirements for updating its maps based upon the results
17 of what is found in the field through this process if
18 those results differ from what the documentation
19 indicates. Southwest is certain these procedures exceed
20 the procedures now used by Black Mountain. In addition,
21 Southwest's line location accuracy in its Central Arizona
22 Division is 99.97 percent for the 12-month period ending
23 December 2002, which included 396,649 line locate
24 requests. Southwest achieved this excellent record of
25 accurate line location while using contract line-locating
26 employees for the majority of the locates, with Southwest
27 oversight, and following Southwest procedures. It would

1 be better, therefore, for the Commission to require
2 Southwest to maintain its current standards for training
3 and qualifying contractors and Southwest employees, while
4 allowing Southwest the discretion to make the appropriate
5 business decisions necessary to continue its excellent
6 record of line-location accuracy in all of Southwest's
7 current and future service areas. In addition, it would
8 be unreasonable and potentially costly to Southwest's
9 customers to maintain two separate and unequal policies
10 and processes for line locating - one for the current
11 Black Mountain service areas and one for Southwest's
12 existing Arizona service areas.

13 Q. 24 Please describe Staff Condition 14 and its
14 recommendation.

15 A. 24 Staff Condition 14 states that Southwest will complete
16 all mapping of the Black Mountain pipeline system no
17 later than May 1, 2003, consistent with Black Mountain's
18 2002 Code Compliance Audit. In essence, Staff is
19 recommending that Southwest complete the paper mapping
20 process that Black Mountain has started.

21 Q. 25 Please describe Southwest's concerns with Staff
22 Condition 14.

23 A. 25 Southwest has completely different mapping systems and
24 standards than does Black Mountain. Southwest has an
25 electronic mapping system. Southwest does not believe it
26 is reasonable or prudent for the Commission to require
27 it, as the new owner of the system, to complete this

1 commitment without being able to first analyze the
2 resources it will take to complete the mapping using the
3 Black Mountain mapping system and standards. Furthermore,
4 Southwest should be allowed the opportunity to analyze
5 whether it makes sense to complete the mapping using the
6 Black Mountain system and standards at all. Southwest may
7 find, instead, that it is much more efficient and
8 effective to incorporate the Black Mountain maps into
9 Southwest's mapping systems, using Southwest standards,
10 particularly since the current Black Mountain service
11 territory will eventually become part of the Central
12 Arizona Division if the proposed acquisition is
13 consummated.

14 Regardless of the system in which the Black
15 Mountain mapping is completed, the May 1, 2003 deadline
16 is unreasonable. A more appropriate and reasonable
17 deadline should be established. Southwest proposes that
18 it should be allowed at least 18 months after approval of
19 the acquisition, or until December 31, 2004, whichever is
20 later, to complete the mapping of the current Black
21 Mountain service area.

22 Q. 26 Are there other conditions proposed by Staff that
23 Southwest wishes to address?

24 A. 26 Yes. Condition 3 proposes that Southwest shall not allow
25 the quality of service in either Southwest or Black
26 Mountain service territories to decline as a result of
27 the acquisition. Specifically, the number of service

1 complaints should not increase, response time for service
2 should not increase, and service interruptions shall not
3 increase.

4 Southwest already has an excellent record at the
5 Commission among the regulated utilities, by Staff's own
6 testimony in this proceeding; noting only one such
7 complaint per 10,000 customers for Southwest (with a
8 customer base of 800,000) over the most recent three-year
9 period, compared to eight such complaints per 10,000
10 customers for Black Mountain (with a customer base of
11 7,900). Providing outstanding customer service is a
12 hallmark at Southwest and a key focus of our operations.

13 While Southwest can understand Staff's concern that
14 such an important issue be recognized, the Commission
15 need not fear that integrating an additional 7,900
16 customers will negatively impact customer service. To the
17 contrary, Black Mountain natural gas customers will enjoy
18 even greater service convenience and offerings through
19 Southwest than they currently have available. Services
20 such as summary billing, core aggregation, e-billing,
21 low-income assistance programs, automated account
22 systems, and defined customer-appointment windows are
23 just a few of the additional improvements to customer
24 service Southwest can offer Black Mountain natural gas
25 customers. With specialized crews and equipment available
26 to handle unexpected events, Southwest can rapidly
27 respond to any situation that may threaten interruptions

1 in service to customers, as well as call upon additional
2 Company personnel from Nevada and California operations
3 in extreme emergencies.

4 With all of these services and benefits available
5 as a matter of course for Southwest customers, the
6 Commission can approve the acquisition without this
7 additional condition.

8 Q. 27 Does Southwest believe that the Commission and Southwest
9 have common interests related to its acquisition of Black
10 Mountain's gas facilities and customer base?

11 A. 27 Yes, both Southwest and the Commission have common
12 interests. The Commission is appropriately interested in
13 seeing that natural gas utilities provide a high level of
14 service, responsiveness, and safety to their customers.
15 It is the Commission's responsibility to ensure any
16 acquisition is in the public interest. Southwest shares
17 those same interests, as indicated by its industry
18 leadership in customer satisfaction, line location
19 accuracy, emergency response times, and many other
20 performance measures. For example, Southwest's customers
21 have consistently rated their satisfaction with natural
22 gas service at the 90 percent or above level, as measured
23 by an independent national research firm. The Staff also
24 acknowledges that Southwest has one of the lowest
25 customer complaint averages among the major utilities the
26 Commission regulates in Arizona. Finally, Southwest's
27 average emergency response time in 2002 has stayed below

1 40 minutes from initial notification to gas-off time.
2 Even without the specific conditions outlined in Staff's
3 recommendation for approval of Southwest's acquisition of
4 Black Mountain, customers in the newly-acquired service
5 areas will enjoy the same high levels of customer
6 satisfaction and safety that Southwest now offers its
7 existing customers. Southwest offers demonstrated
8 improvements and enhancements compared to the existing
9 service of Black Mountain customers', without any
10 degradation in quality or service to Southwest's existing
11 Arizona customer base. As a result, Southwest believes it
12 is in the public interest for the Commission to approve
13 its acquisition of Black Mountain.

14 Q. 28 Does this conclude your prepared rebuttal testimony?

15 A. 28 Yes, it does.

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BEFORE THE ARIZONA CORPORATION COMMISSION

Prepared Rebuttal Testimony
of
EDWARD B. GIESEKING

Q. 1 Please state your name and business address.

A. 1 My name is Edward B. Giesecking. My business address is
5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002.

Q. 2 By whom and in what capacity are you employed?

A. 2 I am employed by Southwest Gas Corporation (Southwest) as
Senior Manager/Pricing and Tariffs Department.

Q. 3 Please state your educational background and business
experience.

A. 3 I received a Bachelor of Arts degree in Business
Management from Sonoma State University in 1985 and a
Master of Arts degree in Regulatory Economics from New
Mexico State University in 1993.

From 1983 through 1993, I was employed by Pacific
Gas and Electric Company in various capacities, including
the position of Regulatory Analyst in the Revenue
Requirements and Rates departments. My responsibilities
as a Regulatory Analyst primarily involved the
development of pricing structures and supporting rate
requests before the California Public Utilities
Commission (CPUC).

In 1993 I began my career with Southwest as a
Specialist in the Rates Department. I was assigned

1 responsibility for monitoring and participating in
2 California regulatory activity and reporting impacts to
3 Company management. In 1995 I was promoted to Senior
4 Specialist in the Regulatory Affairs department and
5 subsequently was promoted to Manager of the department in
6 1998. In addition to the day to day management of the
7 department, my responsibilities included the supervision
8 of regulatory filings to ensure timely and accurate
9 submittals and performing in the capacity of company
10 liaison with state regulatory agency and state consumer
11 advocate professionals.

12 In August 2002, I was transferred to the Pricing
13 and Tariffs Department and promoted to my current
14 position. I report to the Vice President/Pricing and am
15 responsible for the development of rate design and tariff
16 proposals for Southwest in association with proceedings
17 before Southwest's various regulatory agencies.

18 Q. 4 Have you previously testified before any regulatory
19 commissions?

20 A. 4 Yes, I have submitted pre-filed testimony and testified
21 before the CPUC.

22 Q. 5 What is the purpose of your prepared rebuttal testimony
23 in this proceeding?

24 A. 5 My testimony responds to issues addressed in the prepared
25 direct testimonies of Mr. Joel M. Reiker and Mr. Robert
26 G. Gray from the Arizona Corporation Commission
27 (Commission) Utilities Division (Staff) and Mr. Rodney

1 L. Moore from the Residential Utility Consumer Office
2 (RUCO) concerning post-acquisition rates and services.
3 Specifically, I am rebutting proposals to: (1) prohibit
4 Southwest from seeking future rate recovery of any
5 acquisition premium; (2) prohibit Southwest from seeking
6 recovery of any costs associated with the acquisition;
7 (3) require Southwest to make its books and records
8 concerning any unregulated activity available in the
9 Phoenix metropolitan area (4) adjust the margin, or
10 non-gas portion of rates, of newly-acquired Black
11 Mountain Gas Company (Black Mountain) natural gas
12 customers outside of a general rate case; (5) postpone
13 the Southwest/Black Mountain gas portfolio and Purchased
14 Gas Cost Adjustment Provision (PGA) consolidation for a
15 period of up to 18 months; and (6) require Southwest to
16 make a filing to begin offering the Page Division propane
17 customers service options that are currently available to
18 Southwest's customers.

19 Q. 6 Please explain the difference between the terms
20 "acquisition premium" and "acquisition adjustment."

21 A. 6 An acquisition premium is very simply calculated as the
22 difference between an asset's purchase price and book
23 value of the asset (original value less depreciation).
24 Acquisition adjustment refers to the ratemaking treatment
25 of the acquisition premium. The determination of any
26 acquisition adjustment should take into account savings
27 and benefits associated with the transaction.

1 Q. 7 Staff recommends that the Commission impose conditions
2 that would prohibit Southwest from seeking future rate
3 recovery of any acquisition premium or any costs
4 associated with the acquisition. Is it appropriate for
5 the Commission to make a determination in this proceeding
6 on either of these issues?

7 A. 7 No. Staff seems to have confused "acquisition premium"
8 with "acquisition adjustment" in its recommendation. The
9 determination of any acquisition adjustment should not be
10 prejudged before considering any savings and benefits
11 attributable to the acquisition. Such a determination
12 would be speculative at this time, and should be
13 postponed until Southwest has had an opportunity to
14 operate the Black Mountain property and determine
15 operational and administrative efficiencies resulting
16 from the acquisition. Similarly, it is inappropriate to
17 make a determination on the rate recovery of costs
18 associated with the acquisition without considering
19 efficiencies and customer benefits of the transaction.

20 Q. 8 When should the Commission consider the determination of
21 any acquisition adjustment or recovery of costs
22 associated with the acquisition?

23 A. 8 Southwest's next general rate case is the appropriate
24 venue to analyze and make a determination on these
25 issues. At that time, Southwest will have had the
26 opportunity to more fully determine and measure any
27 efficiency gains and customer benefits and will be in a

1 position to propose ratemaking treatment.

2 Q. 9 Has the Commission previously ruled on this issue?

3 A. 9 Yes. In Decision No. 60167, the Opinion and Order in
4 Southwest's acquisition of Ajo Improvement Company (AIC),
5 the Commission stated, "Southwest Gas' pending rate case,
6 where the effect on rate payers can be thoroughly
7 analyzed, is the proper forum for determining the
8 treatment of the acquisition adjustment."

9 Q. 10 As a condition to the acquisition, Staff recommends the
10 following:

11 "SWG shall not use any utility plant or other
12 property, that is used or necessary for the
13 provision of utility service, for any
14 unregulated activity unless SWG maintains
15 appropriate books and records of account
16 detailing the nature of such unregulated
17 activity and providing appropriate allocations
18 between activities relating to SWG's provision
19 of utility service and the unregulated
20 activity. SWG's books and records concerning
21 all unregulated activities shall be subject to
22 the Commission's review and shall be made
23 available in the Phoenix metropolitan area or,
24 at the Commission's request, where the records
25 are maintained, on ten days notice."

26 Do you have any comments or concerns regarding this
27 proposed condition?

28 A. 10 Yes. First of all, Southwest agrees with Staff regarding
29 the necessity of keeping appropriate books and records
30 detailing the activities of Southwest's regulated and
31 unregulated operations; regardless of whether this is
32 made a condition of the acquisition, Southwest will
33 maintain and keep such records. Southwest also agrees

1 with Staff that it has an obligation to provide the
2 Commission with the opportunity to review such books and
3 records. However, Southwest takes exception with the
4 Staff condition that, unless the Commission requests
5 otherwise, Southwest should have the obligation to make
6 the books and records available at a location different
7 from the normal business location for those records.

8 Upon request, Southwest routinely provides the
9 Staff copies of books and records and other company
10 materials when the reproduction of those materials is not
11 burdensome. When requested materials are voluminous, it
12 is common practice for the Staff to conduct their review
13 at the location where the materials are normally stored.
14 This "standard practice" should be sufficient for the
15 purpose of Staff reviewing Southwest's regulated and
16 unregulated activities post acquisition.

17 Further, Staff's proposed condition is inconsistent
18 with the language in Arizona Revised Statutes (A.R.S.)
19 § 40-242, which contemplates that, unless the Commission
20 by order were to require otherwise, Southwest would not
21 have an obligation to make books and records available at
22 any location other than the normal business location for
23 such records. As a practical matter, Southwest has no
24 intention of awaiting a Commission order before making
25 books and records available whenever and wherever the
26 Commission designates, and Southwest never has. However,
27 in Southwest's view, an order ought not to be issued in

1 this proceeding which would effectively eviscerate what
2 is contemplated by the legislation.

3 **REGULATED NATURAL GAS OPERATIONS (CAVE CREEK DIVISION)**

4 Q. 11 Briefly summarize the proposal that Southwest made in its
5 filing for rates, charges and terms of conditions of
6 service for customers acquired in this acquisition.

7 A. 11 Southwest's rate transition plan for the Black Mountain
8 regulated natural gas customers contains three major
9 elements: (1) current Black Mountain non-gas volumetric
10 rates and customer charges would remain in effect until
11 rates are approved in Southwest's next general rate case;
12 (2) Southwest's miscellaneous charges and terms and
13 conditions of service would apply to the acquired
14 customers; and (3) the gas cost balancing account of
15 Southwest's current customers and the gas cost balancing
16 account of the acquired customers would be combined and
17 Southwest's gas cost rates would be applicable to the
18 acquired customers.

19 Q. 12 After considering the direct testimony in this
20 proceeding, does Southwest have any modifications to its
21 post-acquisition rate proposal?

22 A. 12 Yes. To address the Staff's concern regarding potential
23 customer confusion if certain components of rates are
24 adjusted and others are not adjusted, Southwest proposes
25 to serve the acquired customers at their existing rates
26 until Southwest adjusts rates in its next general rate
27 case. This would include the Black Mountain miscellaneous

1 service charges. To the extent that Southwest offers a
2 service that Black Mountain does not offer and for which
3 Black Mountain does not have a charge, the acquired
4 customers would be subject to the Southwest charge for
5 that service. Under this proposal, there would be no rate
6 impact associated with the acquisition.

7 At the time of the monthly PGA Adjustment following
8 approval of the acquisition, Southwest would true-up the
9 gas costs of existing Southwest customers and the
10 acquired customers, freeze the PGA balance associated
11 with the acquired customers, and would begin making PGA
12 deferrals on a combined basis. Southwest would make a
13 filing with the Commission requesting approval to
14 establish a surcharge or surcredit to recover or refund
15 any balance in the Black Mountain PGA account to the
16 acquired customers.

17 Q. 13 Does Black Mountain currently employ a monthly gas cost
18 adjustment mechanism?

19 A. 13 Yes, it does. Southwest's rate transition proposal would
20 not introduce any concept with which Black Mountain
21 customers are not already familiar.

22 Q. 14 Staff claims that Black Mountain acquisition customers
23 would be inequitably burdened if Black Mountain rates are
24 not set equal to current Southwest rates at the time of
25 the Black Mountain dissolution; thereby leading to
26 customer complaints of inequitable treatment. What is
27 your opinion regarding this concern?

1 A. 14 The acquired Black Mountain customers rates will remain
2 stable; there will be no service degradation to Black
3 Mountain customers; and services not currently offered to
4 Black Mountain customers that are available to Southwest
5 customers will be made available to them. These are
6 examples of immediate benefits, not burdens, to the
7 affected customers. Black Mountain customers were made
8 aware of the acquisition plan filing through a direct
9 customer notice, and to the best of Southwest's
10 knowledge, not one Black Mountain customer has raised an
11 issue with Southwest's filing.

12 Moreover, the rates that Black Mountain customers
13 are currently paying, and would continue to pay under
14 Southwest's proposal, have been deemed just and
15 reasonable by this Commission as recently as March 2001.

16 If, for any reason, the acquisition should not be
17 consummated, Black Mountain customers will not be
18 provided the opportunity to take advantage of expanded
19 services offered by Southwest.

20 Q. 15 Has Staff previously supported continuing the assessment
21 of an acquired entity's existing rates in any prior
22 Southwest acquisition?

23 A. 15 Yes. In its Report to the Commission in Docket Nos.
24 E-1025-96-473 and U-1551-96-473, the Southwest purchase
25 of the gas distribution assets of AIC, the Staff
26 recommended that Southwest charge the AIC customers AIC's
27 current rates, including gas cost and purchased gas

1 adjuster rates, until the disposition of Southwest's next
2 general rate case.

3 Q. 16 Was the relative difference between Southwest rates and
4 AIC rates in the AIC purchase and between Southwest rates
5 and Black Mountain rates in the Black Mountain
6 acquisition similar?

7 A. 16 Yes, the relative difference in rates in the two cases is
8 comparable: Southwest's tariffed rate per therm was lower
9 than the AIC rate per therm and Southwest's current rate
10 per therm is lower than the current Black Mountain rate.

11 Q. 17 Did Staff conclude in its Report on the AIC purchase that
12 AIC customers would be inequitably burdened, be likely to
13 complain of inequitable treatment, or be confused?

14 A. 17 No. Staff reached no such conclusions, though
15 circumstances were similar.

16 Q. 18 Has Staff made a finding or assertion that the current
17 rates for Black Mountain customers are excessive or that
18 they have resulted in an over-earning of authorized
19 revenue?

20 A. 18 Not that I am aware.

21 Q. 19 RUCO recommends that Southwest be required to file a rate
22 application within three years. Is Southwest opposed to
23 this recommendation?

24 A. 19 No. Within that time frame, Southwest will gain
25 experience operating the acquired property and will be
26 able to gather the data necessary to perform the analyses
27 required for a rate case filing.

1 REGULATED PROPANE OPERATIONS (PAGE DIVISION)

2 Q. 20 Both Staff and RUCO approve of Southwest's plan to
3 continue service to the Black Mountain propane division
4 under Black Mountain's current rates and tariff
5 provisions until Southwest's disposal of the property.
6 However, in the event Southwest does not effect a
7 disposal of the property within 18 months of the
8 Commission's approval of the acquisition, Staff
9 recommends that Southwest be required to make a filing to
10 begin offering the Page Division propane customers
11 service options that are currently available to
12 Southwest's customers. Does Southwest agree with this
13 recommendation?

14 A. 20 No. As long as Southwest is actively working toward the
15 goal of marketing the propane property, there should not
16 be a requirement to make such a filing. In the event the
17 disposal of the propane property is not completed within
18 the twelve months contemplated in the Application,
19 Southwest will file a notice with the Commission that
20 provides the status of its efforts. Southwest suggests
21 that after review of the report, the Commission, at that
22 time, will likely be in a better position to determine
23 whether Southwest should expand the services currently
24 provided to the propane customers.

25 Q. 21 Does this conclude your prepared rebuttal testimony?

26 A. 21 Yes, it does.