



0000055276

ORIGINAL

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2003 FEB 21 P 1:22

MARC SPITZER

Chairman

Arizona Corporation Commission

WILLIAM A. MUNDELL

Commissioner

DOCKETED

JIM IRVIN

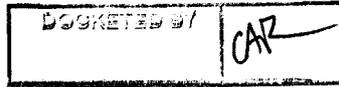
Commissioner

FEB 21 2003

AZ CORP COMMISSION
DOCUMENT CONTROL

MICHAEL GLEASON

Commissioner



JEFFREY HATCH-MILLER

Commissioner

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

NOTICE OF FILING

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

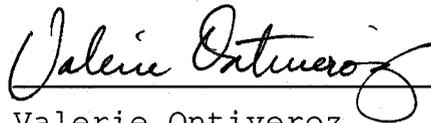
RESPECTFULLY SUBMITTED this 20th day of February 2003.

Randall W. Sable
Manager, State Regulatory Affairs
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89150-0002
702.364.3079

1 G-01551A-02-0425

2 CERTIFICATE OF FILING AND SERVICE

3
4 I, Valerie Ontiveroz, hereby certify that, on this 20th
5 day of February, the original and fifteen copies of the
6 foregoing Notice of Filing of Summaries of Prepared Rebuttal
7 Testimony are being filed with Docket Control, Arizona
8 Corporation Commission, 1200 West Washington Street, Phoenix,
9 Arizona 85007-2996, and that the foregoing is being served by
10 mailing a copy thereof, prepaid, via first class mail or
11 overnight service to the parties on the attached service list.

11 

12 Valerie Ontiveroz
13 Southwest Gas Corporation

Service List
G-01551A-02-0425

The Honorable Jane Rodda
Administrative Law Judge
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Andrew Bettwy
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510

Edward Zub
Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510

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

Timothy Berg
Theresa Dwyer
Fennemore Craig, P.C.
3003 North Central Avenue, Suite 2600
Phoenix, AZ 85012

Nicholas Enoch
Lubin & Enoch, P.C.
349 North Fourth Avenue
Phoenix, AZ 85003

Scott Wakefield, Chief Counsel
Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, AZ 85007

Christopher Kempley, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Ernest Johnson, Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Commissioner Jeffrey Hatch-Miller
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Commissioner Michael Gleason
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Commissioner William Mundell
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Commissioner Jim Irvin
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Chairman Marc Spitzer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Paul Walker
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Kevin Barlay
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Hercules Dellas
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Jodie Jerich
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Dean Miller
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

William Meek
Arizona Utility Investors Association
2100 North Central Avenue, Suite 210
Phoenix, AZ 85004

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

**SUMMARY OF PREPARED REBUTTAL TESTIMONY OF
EDWARD A. JANOV**

Mr. Janov's prepared rebuttal testimony supports the Southwest Gas Corporation (Southwest or Company) application for approval to acquire the Black Mountain Gas Company (Black Mountain). In addition, Mr. Janov responds to and rebuts the apparent public interest concerns implicit within the Arizona Corporation Commission Utilities Division Staff's (Staff) position to impose undue and unnecessary conditions on the proposed acquisition.

Because of its size, this transaction should not be viewed as an "acquisition" in the traditional sense of a major merger or acquisition. Legal distinctions aside, this transaction is best viewed as a strategic acquisition of an existing customer base in a service territory that is essentially already served by Southwest. By analogy, the addition of approximately 7,900 new natural gas customers via this transaction is akin to what Southwest currently adds to its Arizona customer base every 90 days.

Although the transaction is relatively small, a number of operating efficiencies and improved customer services will result. Imposing numerous conditions on such a small transaction, that could actually diminish or negate expected benefits or impose greater costs than currently borne by customers, could cause Southwest to conclude the acquisition is non-economic. Only Staff proposes these adverse conditions. All other parties support the acquisition without suggesting significant additional conditions or burdens.

Southwest views this transaction as a "win-win" for all parties. Southwest has been providing safe and cost-effective natural gas service throughout the southwestern United States for over 70 years, and in Arizona for nearly half a century. Southwest is financially sound and has access to reasonably priced capital to fund and operate these properties. The Commission should find that the acquisition of Black Mountain by Southwest is in the public interest. This acquisition should be approved by the Commission without significant additional conditions. That finding will truly result in a "win-win" for all involved.

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

**SUMMARY OF PREPARED REBUTTAL TESTIMONY OF
BENNETT D. BURKE**

Mr. Burke's prepared rebuttal testimony provides Southwest Gas Corporation's (Southwest or Company) response to the operations and safety issues asserted by Arizona Corporation Commission (Commission) Staff (Staff) in its direct testimony concerning Southwest's acquisition of the stock of Black Mountain Gas Company (Black Mountain). Mr. Burke's testimony addresses Staff's proposed Conditions 9 through 14, as well as Condition 3 (service quality).

Southwest does not agree with Staff's Condition 9 that Southwest continue to maintain the existing emergency isolation valves in all current Black Mountain service areas. Southwest has not had the opportunity to evaluate the location and condition of Black Mountain's existing isolation valves. Southwest can commit to review the Black Mountain valve isolation plan, and maintain and install those valves which are appropriate in accordance with Southwest Design Standards and emergency response needs. A condition such as "Southwest will review and incorporate the Black Mountain valve isolation plan into its existing valve isolation plan and will maintain and improve that plan as necessary" is a more appropriate recommendation.

Staff Condition 10 recommends Southwest complete the installation of approximately 34 additional emergency isolation valves if, at the time of the stock transfer, Black Mountain has not completed the installation of those valves. The Staff recommended completion of the installations no later than May 1, 2003. Rather than committing to the installation of those specific valves, it is more appropriate for Southwest to evaluate the Black Mountain valve isolation plan; and then ensure that valves are installed which are necessary and appropriate for the proper operation of the valve isolation plan, in accordance with Southwest standards and practices.

Staff Condition 11 states Southwest shall not allow the acquisition of Black Mountain to diminish staffing that would result in service and/or safety degradation in either the current Black Mountain or Southwest service areas.

Southwest believes it is more appropriate for the Commission to require it to maintain service and safety standards; and not tie that requirement to staffing or other necessary business decisions.

Staff Condition 12 requires maintaining fully operational local field offices in the cities of Cave Creek and Page, Arizona, as appropriate, to maintain the quality of service. This is a business decision that Southwest should make based on its experience in operating its other natural gas distribution systems in Arizona and experience gained operating the acquired property. The Commission should provide Southwest with the flexibility to determine the appropriate location and capabilities of its operations centers, while maintaining the high standards of safety and service the Company's customers rely upon.

Staff Condition 13 recommends Southwest continue Black Mountain's current policy of not using contract personnel for underground pipeline locating. Southwest does not see any basis for this recommendation. In Central Arizona, Southwest's contract line locators' methods of location and success ratio mirrors that of Company locators. Southwest's line location accuracy in its Central Arizona Division is 99.97 percent for the 12-month period ending December 2002, which included 396,649 line locate requests. Southwest achieved this excellent record of accurate line location while using contract line-locating employees for the majority of the locates, with Southwest oversight, and following Southwest procedures. In addition, it would be unreasonable and potentially costly for customers to maintain two separate and unequal policies and processes for line locating - one for the current Black Mountain service areas and one for Southwest's existing Arizona service areas.

Staff Condition 14 requires completion of all mapping of the Black Mountain pipeline system no later than May 1, 2003, consistent with Black Mountain's 2002 Code Compliance Audit. Staff is recommending Southwest complete the paper mapping process Black Mountain has started. Southwest may find that it is much more efficient to incorporate the Black Mountain maps into Southwest's electronic mapping systems. Regardless of the system in which the Black Mountain mapping is completed, Southwest proposes that it should be allowed at least 18 months after approval of the acquisition, or until December 31, 2004, whichever is

later, to complete the mapping of the current Black Mountain service area.

In terms of service quality, Staff Condition 3 states that Southwest shall not allow the quality of service in either Southwest or Black Mountain service territories to decline as a result of the acquisition. Staff's own testimony in this proceeding illustrates Southwest's excellent record at the Commission among the regulated utilities. Providing outstanding customer service is a hallmark at Southwest and a key focus of the Company's operations. Black Mountain's customers will enjoy even greater service convenience and offerings through Southwest than are currently available to them. Consequently, the acquisition should be approved without this condition.

The Commission is appropriately interested in seeing that natural gas utilities provide a high level of service, responsiveness, and safety to their customers. Southwest shares those same interests. Even without the specific conditions for approval outlined in Staff's recommendations, customers in the newly-acquired service areas will enjoy the same high levels of customer satisfaction and safety that Southwest now offers its existing customers. Southwest believes it is in the public interest for the Commission to approve its acquisition of Black Mountain, without Staff's unnecessary conditions, or as Southwest proposes above.

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

**SUMMARY OF PREPARED REBUTTAL TESTIMONY OF
EDWARD B. GIESEKING**

Mr. Giesecking's prepared rebuttal testimony on behalf of Southwest Gas Corporation (Southwest) responds to the following proposed conditions raised in the testimony of Arizona Corporation Commission (Commission) Utilities Division Staff (Staff). The conditions the Staff suggests be imposed on the Black Mountain Gas Company (Black Mountain) acquisition include:

- (1) prohibiting Southwest from seeking future rate recovery of any acquisition premium;
- (2) prohibiting Southwest from seeking recovery of any costs associated with the acquisition;
- (3) requiring Southwest to make books and records concerning unregulated activities available in the Phoenix metropolitan area;
- (4) requiring margin rates for newly acquired Black Mountain Gas Company customers be adjusted outside of a general rate case;
- (5) prohibiting Southwest from consolidating the gas portfolios and Purchased Gas Adjustment (PGA) provisions of the two companies; and
- (6) giving Southwest a date certain to make a filing to provide propane customers acquired in the acquisition with service options currently available to existing Southwest natural gas customers.

Regarding the first two proposed conditions, it is premature to make a determination on the appropriateness of rate treatment for either an acquisition adjustment or the costs associated with the acquisition at this time. Southwest should be provided the opportunity to operate the newly acquired property and to measure efficiency gains and customer benefits before proposing any ratemaking treatment of any premium or acquisition costs. Any ratemaking treatment is more appropriately considered in the context of a general rate case.

Southwest has a long history of making its books and records available to the Commission and its Staff upon request. This has traditionally been accomplished by providing photographic copies of the requested materials, and when the materials are voluminous or otherwise cumbersome to reproduce, providing access to the books and records at the business location where the materials are normally stored. This practice has worked well in the past and is consistent with the language of Arizona Revised Statute §40-242.

Consistent with the rate treatment the Commission has authorized for previous Southwest acquisitions, it is appropriate to maintain the existing rates for the acquired customers until rates are established in a general rate case. Southwest will file a rate case within three years after approval of the acquisition and expects to propose consolidated rates for all customers at that time.

Similar to Southwest, the gas cost component of Black Mountain natural gas customers' rates is subject to monthly changes, based on the monthly PGA mechanism adopted by the Commission. The acquired customers' gas requirements are but a small percentage of Southwest's total gas requirements and there will be no discernable impact on Southwest's gas purchasing activities if the portfolios are consolidated. It is appropriate to consolidate the gas purchasing activities for the Black Mountain natural gas customers with those of Southwest's existing customers and combine the PGA mechanisms at the first PGA adjustment after acquisition approval.

Southwest expects the process of disposing of the regulated propane properties will begin soon after the acquisition is approved. The regulated propane customers will be served under their existing tariff rates and conditions after the acquisition and there is no need to establish a date certain to modify their tariff conditions. In the event Southwest does not complete the transaction to dispose of the regulated propane properties within twelve months of the approval of the acquisition, Southwest will file a report with the Commission providing the status of its efforts. At that time, the Commission and Southwest will be in a better position to determine if services to propane customers should be expanded.