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**SOUTHWEST GAS CORPORATION**

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John P. Hester, Senior Vice President/Regulatory Affairs & Energy Resources

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Arizona Corporation Commission

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October 29, 2009



Arizona Corporation Commission  
Director of Utilities Division  
1200 West Washington St.  
Phoenix, Arizona 85007

**G-01551A-96-0008**

Attn: Mr. Steven M. Olea

Re: Notice of Intent To Create Affiliate and To Broaden and Diversify the  
Scope of NPL Construction Co.'s Line of Services

Southwest Gas Corporation's (Southwest Gas) wholly-owned and non-regulated subsidiary NPL Construction Co. will be entering into a joint venture with Tommis Young to create a new affiliate - IntelliChoice Energy LLC. IntelliChoice Energy LLC ("ICE") will be a majority-owned subsidiary of NPL Construction Co. Southwest Gas believes the creation of ICE will benefit the public in that it will help facilitate the future development and commercialization of highly efficient natural gas-fired heat pump technology. From a state regulatory perspective, the creation of ICE will have no material impact on customers of Southwest Gas' regulated operations as this essentially results in nothing more than a broadening or diversification of the scope of NPL Construction Co.'s current line of services.

**A. Regulatory Requirements**

Southwest Gas reviewed all applicable statutes, administrative rules, prior Commission decisions, and affiliate interest considerations that may arguably apply to this type of transaction and concluded that there is no pre-approval requirement that was intended to apply to this type of transaction.

However, pursuant to Decision No. 59502, issued in Docket No. U-1551-96-008, Southwest Gas is required to "notify the Director of the Utilities Division of any intent to broaden Northern's [NPL's] line of services or diversify in any manner within a reasonable period after the plans are formed but before they are implemented." In accordance with this requirement, Southwest Gas hereby provides notice of its intent to create an affiliate and to broaden and diversify the scope of NPL's line of services as described herein.



In addition, prior to Southwest Gas transacting any business with ICE, ICE will provide a letter to the Commission agreeing to provide the Commission access to its books and records to the degree required to fully audit, examine or otherwise investigate transactions between Southwest Gas and ICE, as contemplated by the Commission's regulations in R.14-2-804.A.

**B. Brief Background.**

ICE will be a Delaware limited liability company, whereby NPL and Tommis Young will be the only members. NPL Construction Co. ("NPL") is a Nevada corporation that has provided natural gas distribution companies with installation, replacement and maintenance services for underground natural gas distribution systems since 1967. Southwest Gas and NPL agreed to a merger in 1995, whereby NPL became a direct, wholly-owned subsidiary of Southwest Gas. NPL will be a 65 percent majority member of ICE.

The other member of ICE will be Tommis Young. Mr. Young and his related companies, primarily Team Consulting, LLC, have been the primary contractors and partner of Southwest Gas in the research and development of a 10-ton rooftop package commercial heat pump product, commonly referred to as GEDAC. Mr. Young also has certain industry specific knowledge and expertise regarding heating and air-conditioning equipment and technology, as well as expertise and knowledge of natural gas-fired heat pump technology.

**C. Proposed Operations and Contracts with Southwest Gas.**

The principal purpose of ICE is to market and commercialize natural gas-fired heat pump technology. Initially, ICE will market both a GEDAC product and an AISIN product under the NextAire brand name. As noted above, to-date, the GEDAC product consists of a 10-ton rooftop package commercial heat pump product that has been developed jointly by Southwest Gas and Mr. Young. The AISIN products include both 8-ton and 15-ton residential and commercial heat pump products developed and manufactured by AISIN SEIKI Co., Ltd. Both the GEDAC and the AISIN products will initially be used for heating and cooling applications.

ICE will also perform certain research and development activities related to natural gas-fired heat pump technology. To date, Southwest Gas has contracted with Team Consulting, LLC and other companies affiliated with Mr. Young to assist Southwest Gas in its research and development of natural gas-fired heat pump technology. With the creation of ICE, Mr. Young's companies will no longer exist, and instead, those functions will be performed by ICE. As such, Southwest Gas will contract with ICE to perform certain functions on behalf of Southwest Gas, primarily the continued research and development associated with natural gas-fired heat pump technology.



**D. Current Regulatory Impact.**

The assets and funds used to form ICE will consist of contributions of capital from NPL and Tommis Young only, and not Southwest Gas. These funds and assets are presently not included in Southwest Gas' rates in Arizona and will not be in rate base following the creation of ICE.

Southwest Gas plans to enter into two agreements with NPL as a part of this transaction. First, Southwest Gas will enter into a sublease with NPL for a portion of its Westwood facility. NPL will in turn sublease the space to ICE. The subleased space will be used primarily as office space and a testing and demonstration area.

The second agreement will be a licensing agreement, whereby Southwest Gas will license to NPL the right to sublicense the intellectual property rights attributed to the 10-ton rooftop package commercial heat pump product or GEDAC product. Southwest Gas intends to work with Staff to develop a subsequent filing with the Commission proposing a methodology for sharing this benefit with Southwest Gas' customers in proportion to the level of customer investment that contributed to the development of this product.

**E. Benefits of New Affiliate.**

Southwest Gas believes that the continued development and commercialization of natural gas-fired heat pump technology will assist in the reduction of overall carbon emissions and will significantly increase energy efficiency in Arizona. Natural gas-fired heat pumps are up to 150 percent efficient because they capture and use waste heat from the engine and extract energy from ambient temperatures. In cooling mode, natural gas heat pumps are approximately 120 percent efficient at 110° F. Southwest Gas believes further development and commercialization of natural gas-fired heat pump technology will promote fuel optimization and will result in competitive energy options, significant electricity, natural gas, and water savings, and reductions in overall carbon emissions. We expect this effort to also create job opportunities in the manufacturing and installation fields.

Southwest Gas would be happy to meet with Commissioners and Staff to further explain and elaborate on the formation of ICE, and to address any questions or concerns which may exist.

Sincerely,

John Hester  
Sr. Vice President  
Regulatory Affairs and Energy Resources



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