



SOUTHWEST GAS CORPORATION

Gregory J. Peterson, Vice President/Controller/Chief Accounting Officer

December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006-2803

Re: Concept Release on Auditor Independence and Audit Firm Rotation
PCAOB Rulemaking Docket Matter No. 37

Members of the Board:

On behalf of Southwest Gas Corporation ("Southwest"), we appreciate the opportunity to submit comments to the Public Company Accounting Oversight Board ("PCAOB") with respect to the Concept Release on Auditor Independence and Audit Firm Rotation.

Southwest is a regulated natural gas distribution utility, which is primarily engaged in the business of purchasing, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. In 2010, Southwest reported approximately \$1.8 billion in revenue, and served approximately 1.8 million customers. It is the largest distributor of natural gas in Arizona, including the Phoenix and Tucson metropolitan areas, and in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County. Southwest is a large accelerated filer for SEC filing purposes and its stock is listed on the New York Stock Exchange (ticker symbol "SWX").

While we support the PCAOB's ideals to improve the quality of audits by enhancing auditor independence, objectivity, and professional skepticism, we believe existing requirements sufficiently encourage auditor independence, objectivity, and professional skepticism, such that the quality of reported financial information is useful and reliable. We do not believe mandatory audit firm rotation is a necessary or cost-effective solution for enhancing the reliability and usefulness of financial statement reporting and disclosure and might even be counter-productive to a quality audit. We strongly encourage that audit failures



be addressed by the PCAOB on a case-by-case basis, rather than instituting a mandatory audit firm rotation for all companies.

Potential Impacts of Auditor Rotation

We have experience with audit firm changes and understand what it takes to transition to another audit firm. For many years, Southwest engaged Arthur Andersen LLP to perform audit services and, upon their dissolution, we chose to engage PricewaterhouseCoopers (“PwC”) due to the firm’s knowledge of the utility industry. Thorough knowledge of a company, its industry, its environment, and its accounting practices takes time for an audit firm to gain. It is costly both in outlay of corporate funds and in time spent by management and the audit staff to facilitate this transfer of knowledge. Audit quality and efficiency are not optimized during the early years of an engagement.

Shortly after our change of audit firms, the Sarbanes-Oxley Act (“SOX”) was enacted, which, in addition to other landmark changes such as enhancing audit committee responsibilities, adding restrictions on audit firms, and providing other milestone impacts to audit quality, required that audit partners rotate off engagements after 5 years, and prohibited the same audit firm from providing non-audit services. Since that time, we have had four different audit partners. Additionally, no audit staff below the level of partner has remained on our engagement for more than 5 years, as it is common in the audit industry for auditors to leave to pursue employment outside the firm or find other opportunities within their audit firm. When an engagement undergoes a partner rotation, the incoming partner brings a new perspective and thought process. It has been our experience that the incoming partner examines new and existing items with a fresh point of view and focuses on different areas than the previous partner did. We believe the currently required partner and concurring partner rotation and the natural attrition of audit staff are sufficient to maintain independence, objectivity, and professional skepticism. While these transitions are mildly disruptive to the audit, we believe that they accomplish the ideals of the PCAOB, without being onerous or overly costly, as we believe a requirement for audit firm rotation would be.



Lack of Available Options

The consolidation among audit firms has left Southwest and other large companies with relatively limited options for audit firms that possess appropriate and sufficient staff to conduct audit services. Industry expertise issues and potential conflicts of interest further limit our choice of audit firms. The restrictions SOX created, with regard to which non-audit services can be provided by audit firms, have also reduced the number of major firms that can audit Southwest. If required to rotate audit firms, Southwest may also have to rotate any accounting firms performing non-audit services. Due to the previous limiting factors, Southwest, along with its Board of Directors, will have very limited choices as to which audit firm it engages. Mandatory audit firm rotation would likely lead to higher audit fees, with little, if any, additional improvement in the integrity of audit functionality, or benefit to the resulting reporting and disclosure.

Existing Efforts of the Board of Directors

In recent years (in response to the passage of SOX), the Securities and Exchange Commission has enhanced regulations regarding the independence and financial expertise of audit committees. Audit committees have a duty to monitor and evaluate the performance of the audit firms they have engaged. They also uphold a responsibility to review the independence and qualifications of auditors prior to their retention. Given their knowledge of the company and shareholder needs, audit committee members take the issue of choosing or retaining an independent audit firm seriously. The audit committee's duty to regularly question the audit partner about audit quality, and to recognize the appropriate time to question the performance of the current audit firm and/or to ultimately seek proposals from other audit firms, offsets the need for mandatory audit firm rotation.



Summary Considerations

In summary, we believe that:

- the currently required partner and concurring partner rotation and the natural attrition of audit staff are sufficient to maintain independence, objectivity, and professional skepticism without adding an onerous and costly requirement for audit firm rotation;
- the goal of the PCAOB in its proposal of mandatory audit firm rotation is to promote objectivity (and appropriate skepticism) ultimately for purposes of higher quality audits with improved quality of financial statement reporting and disclosure; however, we believe such a mandate would be in direct opposition to the ultimate intent, by consuming time and resources with transitional education, on the part of the audit firm, with respect to the company, its industry, its environment, and practices;
- thorough knowledge of a company and its accounting practices is built over time for audit firm staff and partners, and is costly both in outlay of corporate funds and in time spent by management and the audit staff, a problem that a mandatory audit firm rotation would only exacerbate;
- due to the relatively small number of audit firms that compete for business in large company audits, mandatory audit firm rotation will lead to higher audit fees with little, if any, benefit received by shareholders, and even then, the cost and disruption may work counter to a productive audit;
- the audit committee's duty to regularly question the audit partner about audit quality, independence, and qualifications, and to recognize the appropriate time to question the performance of the current audit firm and/or to ultimately seek proposals from other audit firms offsets the need for mandatory audit firm rotation.



Conclusion

We sincerely appreciate the opportunity to share our views, with regard to auditor independence and audit firm rotation, with the PCAOB. At Southwest, we take great pride in providing a quality product for all constituents – customers, employees, and investors alike. We have spent considerable time and resources on SOX compliance and testing, staff and audit partner rotations, and implementing Dodd-Frank requirements. These efforts and the many changes that have occurred, while challenging at the very least, were important changes to be made in the spirit of quality and transparency for the investing public. However, we believe audit firm rotation will not enhance the quality of audits or financial reporting to the investing public, but may actually consume much of the time in transition that would otherwise be spent by auditors interrogating the appropriateness of financial information. We believe that the requirements in place today are sufficient to maintain independence and encourage objectivity and professional skepticism on the part of the auditor, without undue burden.

Sincerely,