

Decision No. 52520**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHWEST GAS CORPORATION
for authority to sell and issue capital
stock.

Application
No. 37581

O P I N I O N

Southwest Gas Corporation has filed this application for authorization to issue 44,208 shares of its common stock (\$1.00 par value) and to sell said shares at not less than \$10 each for the purpose of paying indebtedness, of reimbursing its treasury, and of financing construction costs.

Applicant is engaged in distributing natural gas in and about Barstow, Victorville, and other communities in San Bernardino County. It reports its net investment in gas properties as of October 31, 1955, at \$921,908, and its capitalization ratios, including bank loans, as follows:

First mortgage 4% bonds		\$348,000	40%
Bank loans		75,000	9
Common stock equity -			
Common stock	\$102,800		
Surplus	<u>345,674</u>		
Total common stock equity		<u>448,474</u>	<u>51</u>
Total		<u>\$871,474</u>	<u>100%</u>

The common stock consists of 65,792 shares of the par value of \$1 each and with a book value, on the basis of the recorded common stock equity, of approximately \$7. Applicant has not paid dividends on its outstanding shares but has retained its earned surplus in its business, generally for the purpose of financing the

cost of expansion of its facilities and extensions of its lines.^{1/}
 The outstanding shares have been held by five individuals.

It appears that applicant now desires to distribute shares of its common stock publicly and that it has entered, or is about to enter, into an underwriting agreement to sell an additional block of 44,208 shares to First California Company, at \$10 a share, for resale to the public.^{2/} It intends to use the proceeds to pay the outstanding bank loans of \$75,000, to finance construction expenditures of \$264,522, as set forth in some detail in the application, and to reimburse its treasury for capital expenditures heretofore made. In this connection it is clear from an analysis of the application and applicant's financial statements that it is necessary for the company to replenish its treasury in order to obtain funds to liquidate its obligations and to improve its cash position. A summary statement of current assets and liabilities is as follows:

Current assets -		
Cash	\$ 31,591	
Accounts receivable	34,570	
Accrued revenues	16,319	
Materials & supplies	<u>51,245</u>	
Total		<u>\$132,725</u>
Current liabilities -		
Notes and accounts payable	\$145,570	
Accrued liabilities	88,033	
Customers deposits	16,672	
Bonds due in 1956	<u>25,000</u>	
Total		<u>\$275,275</u>

^{1/} For the ten months ended October 31, 1955, applicant reports net earnings equal to 10.36% of its reported equity capital.

^{2/} The resale price to the public will be \$11 a share.

On numerous occasions the Commission has reviewed applicant's operations and has issued formal orders authorizing the extension of its business and relating to its gas purchases to meet increasing demands by its customers for service.^{3/} A review of applicant's financial statements shows the extent to which the company's investment and its business have increased during the last four years, as set forth in the following tabulation:

	<u>Net Gas Plant</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>No. of Meters</u>	<u>Gas Sales M.C.F.</u>
1952	\$585,239	\$374,853	\$15,536	3,390	305,335
1953	706,299	472,154	32,792	4,046	590,451
1954	874,227	629,313	57,898	5,064	820,494
1955 (10 mos.)	921,908	585,902	46,485	5,450	750,625

It is estimated by applicant that the new plant installations will enable it to serve 1,200 new customers within one year after completion of construction. Upon the conclusion of the proposed financing the company will have increased its net investment in plant to more than \$1,120,000 and it will have placed itself in a more favorable cash position with no outstanding bank loans, with current assets well in excess of current liabilities and with a substantial volume of working capital. Applicant estimates that its 1956 net earnings will approach 90¢ a share, on the present and proposed shares, and it reports its directors have stated their intention to place the shares on a quarterly dividend basis of 15¢.

From a study of the application it is apparent that applicant has been faced, and is faced, with a continuing growth in

^{3/} Decision No. 49631, dated February 2, 1954, in Application No. 34709.
 Decision No. 51841, dated August 16, 1955, in Application No. 35377.
 Decision No. 51837, dated August 16, 1955, in Application No. 36457.
 Decision No. 51835, dated August 16, 1955, in Case No. 5519.
 Decision No. 51915, dated September 6, 1955, in Application No. 37101.

its service area, that it has taken steps to provide for such increased service, that it will have need for additional funds from the sale of securities, and that its operations have been successful and should produce net earnings for the shareholders. Upon the basis of the information now before us we will enter an order granting applicant's request.

O R D E R

The Commission having considered the above entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation may issue and sell 44,208 shares of its common stock on or before June 30, 1956, for not less than \$10 a share, and use the proceeds for the purposes set forth in this application.

2. Southwest Gas Corporation shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order. As soon as available it shall file three copies of its prospectus.

3. The authority herein granted will become effective upon the date hereof.

Dated at San Francisco, California, this 23rd day of January, 1956.

Edwin Mitchell
President

Justin F. Calmer

Raul Gutierrez

Michael J. Doolan

B. J. Harbo
Commissioners