

ORIGINALDecision No. 54065

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
SOUTHWEST GAS CORPORATION,a corporation, for authority to
issue as a stock dividend not to
exceed 11,000 shares of its
Common Stock of the par value
of \$1.00 per share

Application No. 38517.

O P I N I O N

Southwest Gas Corporation has filed this application for authorization to issue 11,000 shares of its common stock of the par value of \$1 each for the purpose of capitalizing retained earnings.

Applicant is engaged in the business of distributing and selling natural gas in and about Barstow, Victorville and other communities in San Bernardino County. The following tabulation, indicative of the extent of its operations and growth experience, shows its reported investment in utility plant and number of services at the end of each of the last four years and the operating revenues and net income:

	<u>Utility Plant</u>	<u>No. of Services</u>	<u>Operating Revenues</u>	<u>Net Income</u>
1952	\$ 700,029	3,218	\$374,852	\$15,536
1953	814,061	3,873	472,154	32,791
1954	1,017,019	4,902	621,355	54,133
1955	1,176,476	5,417	780,094	73,587

The net investment in utility plant increased to \$1,311,868 on September 30, 1956. The company's financial report shows that it has met its construction program, in part, with borrowed money and, in part, with equity funds. Its capital ratios, as of September 30, 1956, are as follows:

First mortgage bonds	\$317,000	24%
Notes payable	100,000	7
Common stock equity -		
Common stock	\$212,800	
Capital surplus	427,431	
Earned surplus	<u>284,577</u>	
Total common stock equity	<u>914,808</u>	<u>69</u>
Total	<u>\$1,331,808</u>	<u>100%</u>

The outstanding common stock consists of 110,000 shares which have an aggregate par value of \$110,000 but which are carried on the company's balance sheet at an aggregate stated capital of \$212,800. It has not been applicant's practice to pay dividends but to retain its earnings in its business and properties. As indicated by the statement of capital ratios, the book value of each of its outstanding shares as of September 30, 1956, is approximately \$8.32.

Applicant now proposes to capitalize a portion of its retained earnings through the issue of 11,000 shares of common stock and to distribute such shares as a dividend to the holders of the presently outstanding shares on the basis of one new share for each ten of the present shares.

It appears that until recently applicant's shares of stock have been held by a limited number of individuals, but that during this year the company undertook a public sale of its common shares at an offering price of \$11 each. Applicant now reports that with

its continuing growth it will be called upon to make additional public sales and that it has concluded to make the proposed distribution of shares of stock in order to create a greater interest in such shares and thereby develop market conditions favorable to equity financing. The transaction will not result in the withdrawal of any cash from the business but merely in the transfer of \$11,000 from earned surplus to stated capital.

On the basis of the information presented in the verified application, we will enter an order approving the issue of the additional shares. Such approval is for the purpose of this proceeding only and is not to be taken as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

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, that the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purpose specified herein and that such purpose is 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 not to exceed 11,000 shares of its common stock on or before December 31, 1956, in reimbursement of its treasury because of earnings invested in its properties and business. It may distribute such shares to its shareholders of record as a stock dividend.

2. Southwest Gas Corporation shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

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

Dated at San Francisco, California, this 13th day of November, 1956.

E. W. Mitchell President
Paul Weber
William H. ...
E. L. Fox

Commissioners