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Decision No. 54156

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A.38537

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHWEST GAS CORPORATION, a corporation, for authority:

1) To issue and sell \$1,200,000 principal amount of 5% First Mortgage Bonds; and

Application No. 38537

2) To encumber utility property and rights as security for bonds or other evidences of indebtedness.

<u>O P I N I O N</u>

In this application, the Commission is asked to make an order authorizing Southwest Gas Corporation (1) to execute a supplemental indenture and (2) to issue and sell \$1,200,000 of First Mortgage Bonds, by means of a negotiated sale, in order to obtain funds to pay indebtedness, to reimburse its treasury and to finance the cost of construction.

Under authorization granted by the Commission, applicant has executed a trust indenture dated June 1, 1951 and has issued and sold \$400,000 of its First Mortgage 4% Bonds to The Mutual Life Insurance Company of New York, as well as shares of its common stock of the aggregate stated value of \$212,800, for the purpose of financing, in part, the cost of its utility plant serving portions of San Bernardino County. In addition, it has obtained funds from internal sources and from current liabilities and, as of September 30, 1956, reports its assets, liabilities and capital as follows:

- I -

<u>Assets</u> Gas plant Less - depreciation reserve Net gas plant Current assets - Cash Current assets Inventories Prepayments Total current assets Deferred charges	\$1,535,572 223,704 25,081 54,277 101,922 9,645	\$1,311,868 190,925 22,271
Total		\$1,525,064
Liabilities and Capital		
Bonds Current liabilities Deferred credits Capital -		\$ 317,000 252,356 40,900
Common stock (110,000 shares) Capital surplus Earned surplus	<pre>\$ 212,800 417,431 284,577</pre>	
Total capital		914,808
Total		\$1,525,064

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The company has redeemed \$83,000 of the \$400,000 of bonds originally issued.

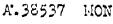
A comparative statement indicating the extent of applicant's operations and its growth during the last few years is as follows:

	<u>1952</u>	<u>1955</u>
No. of services, Dec. 31	3,218	5,417
Net plant, December 31	\$700,029	\$1,176,476
Operating revenues	374,812	780,094
Net income	15,536	73,587

In its present application, the company reports that it will be required to provide \$1,215,635 for capital additions during the period from October 1, 1956 through December 31, 1957, and \$237,365 to pay short-term notes and to augment its working capital,

- 2 -

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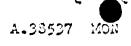
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as shown in some detail in Exhibit A, and that it intends to meet its requirements through the issue of mortgage bonds and junior securities. $\frac{1}{2}$

Initially, applicant intends to engage in bond financing. It has made arrangements to sell \$1,200,000 of its bonds, described as First Mortgage Bonds, 5% Series due 1981, to The Mutual Life Insurance Company of New York at their principal amount plus accrued interest, and to deliver \$450,000 of said bonds during 1956 and the remainder at one or more dates not later than October 31, 1957. The agreement for the sale of the bonds provides, among other things, that prior to incurring bonded debt in excess of \$700,000, applicant must obtain an amount in cash equal to at least \$300,000 from the sale of debentures or common stock. The agreement further provides that the company will grant to the insurance company an option to purchase 11,000 shares of its common stock during the period of twolve years ending in November, 1968, at a price of \$10.91 a At this time, applicant does not seek authorization to share. issue the 11,000 shares.

The estimated capital requirements include	the	following:
Construction - Mains - services - Barstow area - Victorville area Trans. lines and pressure reinforcement Station equipment Land and buildings Subtotal Retirement of notes Working capital		<pre>\$ 253,701 282,900 509,034 45,000 125,000 1,215,635 200,000 37,365</pre>
Total		\$1,453,000

2/ As indicated by the preceding balance sheet, the book value of the presently outstanding shares is approximately \$8.30. On October 29, 1956, the common shares were quoted on the over-the-counter market at Los Angeles at \$10.25 bid and \$10.75 asked.



Upon a review of this application, it appears that this company will have need for additional funds for the purposes set forth in this application and that an order should be entered granting its requests. The authorization herein given is for the issue of the bonds only and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

Applicant has requested the Commission to authorize it to execute the common stock purchase option in favor of the insurance company. The Commission has no objection if applicant executes such an option and applicant may do so if it wishes. However, the approval thus indicated must be understood as not binding the Commission to authorize the company to issue shares pursuant to the terms of such option, when and if applicant may file an application for such authorization. In the event of any such subsequent filing, the Commission will consider the price to be received for the shares of common stock in the light of conditions then prevailing.

<u>o r d e r</u>

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 and sale of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

- 4 -

A.38537 MON

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation on and after the effective date hereof and on or before October 31, 1957, may execute a supplemental indenture in, or substantially in, the same form as that filed in this proceeding and may issue and sell not to exceed \$1,200,000 of its First Mortgage Bonds, 5% Series due 1981, at not less than the principal amount plus accrued interest, and use the proceeds for the purposes set forth in this application.

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 when Southwest Gas Corporation has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,100.

Dated at <u>Los Angeles</u>, California, this <u>4Th</u>, day of December, 1956.

- 5 -

President ale uno Comm PUBLIC UTILITIES COMMISSION