

**ORIGINAL**

Decision No. 54563

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SOUTHWEST GAS CORPORATION

for authority to issue bonds,  
debentures and common stock  
and to refund certain long  
term debt.

Application No. 38742  
(and Amendment)

O P I N I O N

This is an application for an order authorizing Southwest Gas Corporation to execute trust indentures, to issue first mortgage bonds, debentures and shares of common stock in exchange for securities of Nevada Southern Gas Company and in order to finance the cost of additions and betterments.

In this decision, Southwest Gas Corporation will be referred to as Southwest and Nevada Southern Gas Company as Nevada Southern.

Nature of Operations

Southwest and Nevada Southern are public utility corporations engaged in the business of selling and distributing natural gas, the former in portions of San Bernardino County, California, and the latter in and about Las Vegas, Nevada. Many of the officers, directors and supervisory employees are the same; some of the securities of both corporations are held by the same interests; general office facilities and administrative expenses are shared; the records of both corporations are kept in Los Angeles.

The following tabulation shows the revenues, investment and number of customers of the two corporations:

	<u>Southwest</u>	<u>Nevada Southern</u>
Revenues (Jan.-Nov. 1956)	\$ 736,051	\$1,178,862
Net income (Jan.-Nov. 1956)	53,775	72,234
Net gas plant (Nov. 30, 1956)	1,472,367	2,097,145
Number of customers - approx.	7,000	10,000

#### Proposed Merger

The application indicates that the officers and directors of the two corporations have concluded to place the properties and operations under one ownership. Accordingly, subject to receiving appropriate authorization from the Commission, applicant intends to enter into an agreement of merger whereby Nevada Southern will be merged into Southwest and the latter, as surviving corporation, will succeed to all the assets and liabilities of the constituent companies and will issue its securities in exchange for existing securities.

#### Capital Structure

The capitalization of the two corporations, as of November 30, 1956, as adjusted to give effect to subsequent transactions, is shown in the following tabulation:

	<u>Southwest</u>	<u>Nevada Southern</u>
First mortgage bonds -		
4% Series due 1973	\$ 317,000	
5% Series due 1981	450,000	
4-3/4% Series due 1979		\$1,200,000
5% Series due 1981		750,000
Total first mortgage bonds	<u>\$ 767,000</u>	<u>\$1,950,000</u>
Preferred stock -		
6% First preferred	-	400,000
Common stock -		
Shares - \$1 par	120,970	117,330
Book value	\$ 7.66	\$ 5.46
Market value (Dec. 31, 1956)		
Bid	\$ 10.00	\$ 9.625
Ask	10.50	10.125
Annual dividend	.60	.60

Issue of Stock

Under the terms of the merger agreement, each share of common stock of Nevada Southern will be converted into one share of common stock of Southwest. Each share of the 6% First Preferred Stock of Nevada Southern of the par value of \$20 each will be converted into \$20 principal amount of 6% Subordinated Sinking Fund Debentures due January 1, 1977.

Issue of Bonds

As to the secured debt, it appears that the first mortgage bonds of the two corporations are held by The Mutual Life Insurance Company of New York, which company, under the latest bond sales agreements, has options to purchase 11,000 additional common shares of Southwest at \$10.91 a share, 10,000 shares of common stock of Nevada Southern at \$6 per share and 11,000 shares of common stock of Nevada Southern at \$10.91. The options were granted as part consideration for the purchase of the bonds and extend to 1968.

It appears that the bondholder is desirous of having the presently outstanding bonds of the two corporations secured by one indenture and that arrangements therefore have been made for the execution of an indenture supplemental to Southwest's present indenture, which will accomplish this objective and which will create a new series of bonds.

In completing the merger, it is proposed to convert \$120,000 of Southwest's present First Mortgage Bonds, 5% Series due 1981 and \$180,000 of Nevada Southern's present First Mortgage Bonds, 5% Series due 1981 at dollar for dollar into the new series, which will be known as the First Mortgage Bonds, 5% Convertible Series due 1981. The remaining \$330,000 of Southwest's 5% bonds

and the \$317,000 of its 4% bonds, will continue outstanding and the remaining \$570,000 of Nevada Southern's 5% bonds and the \$1,200,000 of Nevada Southern's 4-3/4% bonds will be reissued as bonds of Southwest.

The new series of convertible bonds now being created will not be redeemable prior to December 1, 1968, will not be entitled to the benefits of any sinking funds, or renewal or replacement funds prior to such date and will be convertible at the option of the bondholder from December 1, 1958 and on or before November 30, 1968 into shares of common stock at a conversion price of \$9.375 a share, subject to adjustment of the conversion price in the event of the subdivision or combination of outstanding shares, the issuance of additional common shares without consideration or for a consideration per share less than the conversion price, reclassification of outstanding shares, consolidation, merger, sale or conveyance. The new series of bonds arises from negotiations with the insurance company which resulted in the insurance company relinquishing its stock options and accepting instead the noncallable and conversion features in the new series of bonds.

#### Pro Forma Statement

A pro forma balance sheet, as of December 1, 1956, reflecting the merger of the properties and the issue of securities is as follows:

Assets

Gas plant, less reserves -		
Southwest	\$1,472,367	
Nevada Southern	<u>3,097,145</u>	
Total gas plant		\$4,569,512
Other physical property		15,047
Current assets		780,305
Deferred charges		<u>183,841</u>
Total		<u>\$5,548,705</u>

Liabilities and Capital

First mortgage bonds -		
4% Series due 1973	\$ 317,000	
4-3/4% Series due 1979	1,200,000	
5% Series due 1981	900,000	
5% Convertible Series due 1981	<u>300,000</u>	
Total bonds		\$2,717,000
Debentures		400,000
Current liabilities		691,520
Deferred credits		173,592
Capital -		
Common stock	\$ 275,308	
Capital surplus	984,023	
Earned surplus	<u>307,262</u>	
Total capital		<u>1,566,593</u>
Total		<u>\$5,548,705</u>

Additional Bonds

Applicant intends and seeks authorization to issue and sell \$450,000 of First Mortgage Bonds, 5% Series due 1981 to The Mutual Life Insurance Company of New York at their face value plus accrued interest for the purpose of financing further construction costs. The sale will be made prior to December 31, 1957.

Information furnished in this and in Application No. 38537 heretofore filed with the Commission shows that the company is engaged in a substantial construction program and that it will have need for additional financing to enable it to meet its requirements.

Conclusions and Findings

It appears that the merger of the two corporations will result in administrative simplification and in economies in operations and that the larger company, with its greater assets and financial strength, will enjoy a more advantageous position in the financial community upon which both corporations are dependent for their large capital requirements needed in their expansion programs. The issue of debentures in place of preferred stock will result in tax savings.

Upon a review of the matter, we are of the opinion, and so find, that the proposed transaction will not be adverse to the public interest, that the money, property or labor to be procured or paid for by the issue of securities herein authorized is reasonably required by applicant corporation for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The action taken herein shall not be construed to be a finding of the value of the properties referred to in this application nor as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary and that the application should be granted as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation, on and after the effective date hereof and on or before December 31, 1957, may issue first mortgage bonds, debentures and shares of common stock in amounts and for purposes as follows:

- a. \$400,000 principal amount of 20-year 6% Subordinated Sinking Fund Debentures due January 1, 1977, in exchange for a like amount of 6% Cumulative First Preferred Stock of Nevada Southern Gas Company.
- b. 117,330 shares of its \$1 par value common stock in exchange, at share for share, for the outstanding \$1 par value common stock of Nevada Southern Gas Company.
- c. \$1,200,000 principal amount of First Mortgage Bonds, 4-3/4% Series due 1979, in place of a like amount of First Mortgage Bonds, 4-3/4% Series due 1979 of Nevada Southern Gas Company.
- d. \$570,000 principal amount of First Mortgage Bonds, 5% Series due 1981, in place of a like amount of First Mortgage Bonds, 5% Series due 1981 of Nevada Southern Gas Company.
- e. \$300,000 principal amount of First Mortgage Bonds, 5% Convertible Series due 1981, in place of \$120,000 First Mortgage Bonds, 5% Series due 1981 of Southwest Gas Corporation and \$180,000 First Mortgage Bonds, 5% Series due 1981 of Nevada Southern Gas Company.

2. Southwest Gas Corporation may enter into an agreement of merger and may execute an indenture, dated as of January 1, 1957, defining the terms of its 6% Subordinated Sinking Fund Debentures, which indenture shall be in, or substantially in, the same form as that filed in this proceeding as Exhibit E and may execute a third supplemental indenture, dated as of February 1, 1957, supplemental to its existing indenture of mortgage and deed of trust, which third supplemental indenture shall be in, or substantially in, the same form as that filed in this proceeding as Exhibit J.

3. Southwest Gas Corporation may issue and sell not to exceed \$450,000 in principal amount of its First Mortgage Bonds, 5% Series due 1981, on or before December 31, 1957, at their principal amount plus accrued interest for the purpose of financing the cost of additions and betterments.

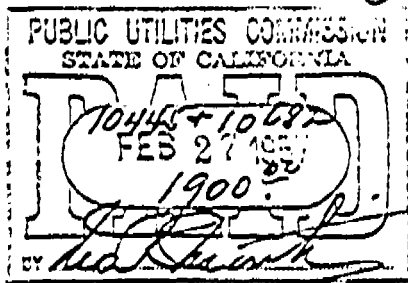
4. Southwest Gas Corporation, from time to time, may issue its shares of common stock in exchange for First Mortgage Bonds, 5% Convertible Series due 1981, which are surrendered for conversion as provided in said third supplemental indenture.

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

6. Southwest Gas Corporation shall maintain records so as to show separately, for its operations in California, its investment in plant and the related depreciation reserve, its operating revenues and operating expenses.

7. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,900.

Dated at San Francisco, California, this 25th day of February, 1957.



John E. Mitchell  
President  
Paul Vitarene  
William Hoover  
E. J. Fox

Commissioners