ORIGINAL

Decision No. 55528

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, Cumulative Convertible Prior Preferred Stock and Common Stock

Application No. 39248

O P I N I O N

In this application Southwest Gas Corporation seeks authorization to assume indebtedness and to issue bonds and shares of stock in exchange for securities of Natural Gas Service Company of Arizona in connection with a merger with that company.

In this decision Southwest Gas Corporation will be referred to as Southwest and Natural Gas Service Company of Arizona as Natural.

Description of Operations

Southwest is a California corporation engaged in the business of selling and distributing natural gas as a public utility in and about Barstow, Victorville, and other communities in San Bernardino County, California, and in and about Las Vegas in Clark County, Nevada. Natural is an Arizona corporation engaged in the business of selling and distributing natural gas as a public utility in the communities of Casa Grande, Clifton, Coolidge, Eloy, Florence, Hayden, Maricopa, Morenci and Superior and surrounding areas in south central Arizona. The following summary tabulation indicates the extent of their operations:

	Southwest	Natural
Operations (12 months ended 6/30/57) -		
Operating revenues	$2,596,822	$2,408,202
Net operating revenues	340,411	175,912
Net plant - June 30, 1957	5,330,938	2,175,431
Number of customers	20,000	12,500

Proposed Merger

Subject to receiving appropriate authorization, the two corporations propose to enter into an agreement of merger whereby Natural will be merged into Southwest and the latter, as the surviving corporation, will succeed to all the assets and liabilities of Natural, will assume its outstanding bonds and be substituted for Natural as a party to that company's trust indenture, and will issue its bonds and shares of stock in exchange for that company's existing securities.

Both corporations are relatively small public utilities and both provide service in rapidly expanding areas similar in terrain and climate. It is reported that Natural has a large summer agricultural pumping load which will complement the peak winter load experienced by Southwest and will more evenly distribute the income and cash flow throughout the year. It is believed by the two corporations that the surviving corporation by reason of its greater assets will enjoy a stronger position in the financial community upon which both companies are dependent for funds to meet their capital requirements.

Capital Structure

The capitalization of the two corporations as of June 30,1957, and as adjusted to give effect to the proposed merger is indicated in the following tabulation:

	Southwest	Natural	Pro forma
First mortgage bonds -			
4% series, due 1973	$ 297,000		$ 297,000
4-3/4% series, due 1979	1,200,000		1,200,000
5% series, due 1981	1,150,000		1,150,000
5% conv. series, due 1981	300,000		300,000
4-1/4% series, due 1973	-	$502,000	-
4-3/4% series, due 1977	-	200,000	-
5% series, due 1973			502,000
5% series, due 1977			200,000
Total bonds	$2,947,000	$702,000	$3,649,000
Debentures -	400,000	-	400,000
Conv. $1.20 preferred stock	-	-	900,000
Common stock and surplus -			
238,300 shares, $1 par	238,300	-	238,300
Class A, 20,000 shares, $5	-	100,000	-
Class B, 133,600 shares, $5	-	668,000	-
Surplus accounts	1,398,642	210,079	1,476,721
Total common stock and surplus	1,636,942	978,079	1,715,021
Total	$4,983,942	$1,680,079	$6,664,021

Issue and Exchange of Securities

At the outset, Southwest will assume the payment of the first mortgage bonds of Natural and will be substituted for that company as a party to its trust indenture. Within 90 days after the effective date of the merger, however, it is planned by Southwest to issue bonds of two new series in the aggregate amount of $702,000 as indicated in the preceding tabulation, in exchange at dollar-for-dollar of Natural bonds.

The exchange will result in substituting $702,000 of 5 per cent bonds for $502,000 of 4-1/4 per cent bonds and $200,000 of 4-3/4 per cent bonds. However, applicant asserts that the substitution will be of advantage to it by the elimination of the divisional lien upon a portion of the properties which will facilitate future financing and by the simplification of accounting procedures which will result in monetary savings.

To complete the merger, Southwest will issue 100,000 shares of its $9 par value $1.20 dividend convertible preferred stock in substitution for the $768,000 of Natural's common stock now outstanding and earned surplus of $132,000.

The capital ratios at the completion of the transaction will be as follows:

Bonds	55%
Debentures	6
Preferred stock	13
Common stock	26
Total	100%

Earnings

While applicant, upon the completion of the merger, will have a bond ratio of 55 per cent, it appears from a pro forma statement that the combined gross income for fixed charges for the 12 months ended June 30, 1957, was in an amount equivalent to 6.3 times the bond interest requirements and that the net income available for the preferred dividend was in the amount equivalent to more than 2.5 times such dividend.

As to the common stock, it appears that the merger will result in no change in the number of shares outstanding. Exhibits filed in this proceeding show that the earnings from Southwest's present operations for the 12 months ended June 30, 1957, amounted to 80 cents a share, whereas the combined earnings of Southwest and Natural on a pro forma basis would have amounted to 87 cents a share.

It thus appears that the earnings of the surviving corporation should be ample to service the proposed securities and to improve the earnings position of the equity holders. Further, it is clear that, upon the basis of the reported results of operations, the earnings from the Arizona operations should be more than enough to meet the fixed charges upon the securities to be issued by Southwest in exchange for the securities of Natural.

Conclusions and Findings

Upon reviewing the application, we conclude and we find that the proposed merger will not be adverse to the public interest, that the money, property or labor to be procured or paid for by the issue of the securities herein authorized is reasonably required by applicant corporation 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.

The action taken herein shall not be construed to be a finding of the value of the properties referred to in this application nor indicative of amounts to be included in a future rate base for the purpose of determining 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 and that the application should be granted as herein provided; therefore, IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation may enter into an agreement of merger in, or substantially in, the same form as that filed in this proceeding as Exhibit D and may carry out the terms and conditions of said agreement.

2. Southwest Gas Corporation may issue not exceeding 100,000 shares of its $1.20 dividend $9 par value cumulative convertible prior preferred stock in exchange for all the outstanding shares of Class A and Class B common stock of Natural Gas Service Company of Arizona and may issue such number of its common shares as may be necessary upon the exercise of conversion privileges by the holders of said prior preferred stock.

3. Southwest Gas Corporation may be substituted for Natural Gas Service Company of Arizona as a party to that company's trust indenture and may assume the payment of not to exceed $502,000 principal amount of 4-1/4 per cent, Series A, First Mortgage Bonds and not to exceed $200,000 principal amount of 4-3/4 per cent, Series B, First Mortgage Bonds of Natural Gas Service Company of Arizona.

4. Southwest Gas Corporation may issue not to exceed $502,000 principal amount of First Mortgage Bonds, 5 per cent Series, due 1973 and not to exceed $200,000 principal amount of First Mortgage Bonds, 5 per cent Series, due 1977 in exchange for said Series A, First Mortgage Bonds and said Series B, First Mortgage Bonds of Natural Gas Service Company of Arizona.

5. 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.

6. 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 $702.

Dated at San Francisco, California, this 10th day of September, 1957.

President

Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By