

ORIGINAL

Decision No. 55531

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SOUTHWEST GAS CORPORATION for
authority to issue shares of its
Common Stock

Application No. 39249

O P I N I O N

Southwest Gas Corporation has filed this application for authorization to issue and sell not to exceed 13,000 shares of common stock (\$13,000 par value) under the terms of a restricted stock option plan and to use the proceeds to finance capital costs.

According to the verified application, the company's directors and stockholders have adopted a so-called Incentive Stock Option Plan for Key Employees as provided in Section 421 of the Internal Revenue Code. Under the provisions of the plan, the company will grant to seven executive employees options to purchase shares of common stock up to an aggregate amount not to exceed 13,000 shares at a price not less than 100 per cent of the fair market value at the time of the grant of such options.

In each case, the option will run for a term of ten years from the grant of such option. The plan contains the customary provisions with respect to the nontransferability of the options, the termination in event of a termination of employment, and the adjustments upon changes in capitalization. According

to the application, the plan is intended to encourage stock ownership by certain selected executive employees, the company being of the opinion that opportunity given them to acquire a direct proprietary interest in the success of the operations will inure to the benefit of the operations.

As of June 30, 1957, applicant had outstanding 238,300 shares of common stock so that the proposed issue constitutes approximately five per cent of the outstanding shares. On April 1, 1956, the company initiated a policy of paying quarterly dividends in the amount of 15 cents a share. While the stock is not listed, we are informed that recently it has been quoted over-the-counter at 10-3/4 bid, 11-1/4 asked.

The offering of common shares to key employees under a restricted stock option plan is not uncommon in corporation financing. The present plan appears to follow along conventional lines and if the directors of the utility, in the exercise of their managerial judgment, have concluded to adopt an option plan and if the present shareholders have approved the same, there appears to be no reason for the Commission to withhold its approval.

Information filed with the Commission indicates the company will have need for equity funds from time to time.

In entering our order granting this application, however, we place applicant on notice that we will not regard the dividends it pays on its common stock in determining the rate of return which it should be allowed to earn nor the price at which it sells its shares as measuring the value of such shares or of its

properties. The authorization herein granted is only for the issue of stock 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.

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 money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that the application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation may issue and sell not to exceed 13,000 shares of its common stock, or such number of shares as may be required upon adjustments in capitalization, under and pursuant to the terms of its Incentive Stock Option Plan for Key Employees, a copy of which is on file in this proceeding as Exhibit A.
2. Southwest Gas Corporation shall use the proceeds from the sale of such shares to finance capital costs.
3. Southwest Gas Corporation shall file reports with the Commission as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

4. This order will become effective 20 days after the date hereof.

Dated at San Francisco, California, this 11th day of September, 1957.

John E. ...
President
...
...
R. ...
C. Lynn Fox
Commissioners