

ORIGINAL

Decision No. 56221

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Southwest Gas Corporation for
Authority to Issue Debentures
and Common Stock

Application No. 39748

O P I N I O N

In this application the Commission is asked to enter an order authorizing Southwest Gas Corporation to issue 40,000 shares of its \$1 par value common stock and \$750,000 principal amount of 6% senior debentures.

Applicant was organized under the laws of the State of California during 1931. In 1957 it entered into merger agreements with Nevada Southern Gas Company and Natural Gas Service Company of Arizona and thereby extended its operations into those states. In California it presently serves natural gas to approximately 8,000 customers in San Bernardino County, including the communities of Barstow, Victorville, Apple Valley and Hesperia, among others. In Nevada it serves natural gas to approximately 10,800 customers in and about Las Vegas and North Las Vegas and in Arizona to approximately 11,800 customers in Gila, Pinal and Greenlee Counties.

In Exhibit A, applicant has reported combined operating revenues of the three companies for the year ended December 31, 1957, at \$5,215,098 and net earnings available for fixed charges at \$520,255. It has set forth its assets, liabilities and capital as of December 31, 1957, as follows:

<u>Assets</u>		
Gas plant, less reserves		\$8,299,825
Nonoperating property		3,168
Current assets -		
Cash	\$ 263,317	
Accounts receivable	695,035	
Materials and supplies	196,453	
Prepayments	97,416	
Total current assets	<u>1,252,221</u>	
Deferred charges		<u>238,959</u>
Total		<u>\$9,794,173</u>

<u>Liabilities and Capital</u>		
First mortgage bonds		\$3,588,000
Subordinated debentures		400,000
Current liabilities -		
Notes payable	\$ 750,000	
Accounts payable	1,031,189	
Customers' deposits	267,021	
Accruals	379,863	
Total current liabilities		2,428,073
Deferred credits		782,655
Preferred stock		900,000
Common stock equity -		
Common stock	238,300	
Surplus	1,457,145	
Total common stock equity		<u>1,695,445</u>
Total		<u>\$9,794,173</u>

The first mortgage bonds are divided into several series bearing interest at rates ranging from 4% to 5%. The subordinated debentures bear interest at the rate of 6% and the preferred stock, which consists of 100,000 shares of the par value of \$9 each, is entitled to annual dividends of \$1.20. On the outstanding common shares, dividends have been paid at the rate of 60 cents a year.

The company reports that it has issued short-term notes to finance the cost of its properties and that it is in need of additional funds from external sources to liquidate its outstanding indebtedness and to finance the cost of further additions and

improvements to its plants. Its capital requirements and its estimated sources of funds are indicated in the following tabulation:

<u>Requirements</u>	<u>California</u>	<u>Nevada</u>	<u>Arizona</u>	<u>Total</u>
Transmission plant	\$160,000	\$ 8,000	\$	\$ 168,000
Distribution plant -				
New business	670,528 ^a	346,110 ^b	146,060	1,162,698
Replacements		18,642	45,880	64,522
General plant	100,000	20,000	19,260	139,260
Total	<u>\$930,528</u>	<u>\$392,752</u>	<u>\$211,200</u>	<u>1,534,480</u>
Common utility plant				
Intangible plant				40,000
General plant				<u>135,000</u>
Total estimated construction expenditures				1,709,480
Less: Expenditures made through Dec. 31, 1957				<u>532,348</u>
Subtotal				<u>1,177,132</u>
Retirement of debt				<u>1,000,000</u>
Total				<u>\$2,177,132</u>

Sources of Funds

First mortgage bonds	\$ 950,000
6% senior debentures	750,000
40,000 shares of common stock at \$8.75 per share	<u>350,000</u>
Subtotal	<u>2,050,000</u>
Less - Estimated expenses to sell securities	<u>37,500</u>
Balance	<u>2,012,500</u>
Internal funds	<u>164,632</u>
Total	<u>\$2,177,132</u>

a. Includes \$281,503 for a distribution system to serve Camp Irwin. This amount plus interest at 6% on the unpaid balance will be reimbursed to the company by the government over a ten year period.

b. Includes \$75,000 for a distribution system to serve Lake Mead - military. This amount plus interest at 6% on the unpaid balance will be reimbursed to the company by the government over a five year period.

Applicant proposes to sell its 40,000 shares of common stock to underwriters at a net price of \$8.75 a share, after deducting underwriting commissions estimated at \$30,000, or 75 cents a share. It proposes to make a private placement of the \$750,000 of senior debentures with The Mutual Life Insurance Company of New York and Modern Woodmen of America. Its capital ratios as of the end of 1957, and as adjusted to give effect to the proposed financing, are as follows:

	<u>December 1957</u>	<u>As Adjusted</u>
Bonds	54.5%	46.7%
Debentures	6.0	15.0
Preferred stock	13.7	11.7
Common stock equity	<u>25.8</u>	<u>26.6</u>
Total	<u>100.0%</u>	<u>100.0%</u>

From a review of the application and of the company's financial statements, it appears that it has need for additional external financing to improve its cash position and to enable it to proceed with the expansion of its facilities. Upon the basis of the verified application, we are of the opinion that an order is warranted granting the company's requests.

The authorization herein granted is for the issue and sale of securities 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.

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, as herein provided, that the money, property or labor to be procured or paid for by the issue of the debentures and stock herein authorized is reasonably required 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,

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation, on and after the effective date hereof, may issue and sell not to exceed 40,000 shares of its common stock, at not less than \$8.75 a share net to applicant, and may execute a debenture indenture and issue and sell not to exceed \$750,000 principal amount of 6% senior debentures at not less than their face value, plus accrued interest.

2. Southwest Gas Corporation shall use the net proceeds to be received from the issue and sale of the stock and debentures herein authorized to pay outstanding notes, to reimburse its treasury for moneys actually expended from income, or from moneys not secured by or obtained from the issue of securities, for the purpose of acquiring properties or constructing, completing, extending and improving its facilities, exclusive of maintenance of service and replacements. The accrued interest may be used for such purposes or for general corporate purposes.

3. 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.

4. 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 \$750.

10th Dated at Los Angeles, California, this day of February, 1958.

John E. Mitchell
President
Raulo Antero
William J. ...
R. Hardy
E. L. ...
Commissioners

