

**ORIGINAL**

Decision No. 60976

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of SOUTHWEST GAS CORPORATION for authority to issue \$1,500,000 principal amount of 6% First Mortgage Bonds and 150,000 shares of \$1.00 par value Common Stock, and for authority to encumber utility property.

Application No. 42737

O P I N I O N

Southwest Gas Corporation filed this application on October 10, 1960, for an order of the Commission authorizing it to issue and sell not to exceed 150,000 shares of its \$1.00 par value common stock and to execute a supplemental indenture and issue and sell not to exceed \$1,500,000 of First Mortgage Bonds, 6% Series due 1985.

Applicant reports that it has commenced negotiations with underwriters for the sale of the shares of common stock and that it estimates the sale will net it not less than \$1,725,000 (or \$11.50 a share) after deducting underwriting commissions of 75 cents a share and before deducting expenses incident to the sale. It further reports that it has a firm commitment with Massachusetts Mutual Life Insurance Company for the sale of the bonds at the principal amount thereof plus accrued interest. The bonds, as stated, will bear interest at the rate of 6% per annum, will be due August 1, 1985, and will be redeemable at the option of the company, on or before July 31,

1965, at a premium of 7.50% and thereafter at annually reducing premiums.

The purpose of the proposed financing is to provide applicant with funds to reimburse its treasury for moneys previously expended for construction, expansion and improvement of its facilities, and thereby improve its working capital position; to discharge outstanding bank loans, which are reported at \$2,200,000, including \$1,100,000 which were authorized by Decision No. 58636; and to meet, in part, the cost of capital additions and improvements.

Applicant is engaged, as a public utility, in the distribution of natural gas in portions of San Bernardino County and liquefied petroleum gas at Big Bear Lake, and in the distribution of natural gas in portions of Nevada and Arizona. A condensed statement of its assets, liabilities and capital as of August 31, 1960, prepared from Exhibit A attached to the application, is as follows:

Assets

Gas plant, less depreciation reserve		\$11,092,058
Other investments		66,409
Current assets		1,783,260
Deferred and other debits		<u>411,503</u>
Total		<u>\$13,353,230</u>

Liabilities and Capital

Long-term debt -		
First mortgage bonds	\$3,850,000	
Sinking fund debentures	<u>1,072,000</u>	\$ 4,922,000
Current liabilities (incl. \$2,200,000 of bank loans)		4,317,725
Advances and contributions		758,415
Deferred and other credits		405,789
Prior preferred stock		898,956
Common stock, premium and surplus		<u>2,050,345</u>
Total		<u>\$13,353,230</u>

The presently outstanding common stock consists of 278,510 shares with a par value of \$1.00 each and a book value, on the basis of the balance sheet of August 31, 1960, of \$7.36 each. For the 12 months ended August 31, 1960, applicant's earnings per share amounted to 86.9 cents. Applicant has been paying annual dividends at the rate of 60 cents.

The company's financial statement shows, as of August 31, 1960, that it has met its requirements, temporarily, with current liabilities, that its current ratio is about 1 to 2.5, and that its capital structure consists largely of borrowed moneys. The proposed financing, when completed, should improve the working capital position and should develop a more balanced capital structure, as indicated in the following tabulation which shows the ratios as of August 31, 1960, and as adjusted to give effect to the new issues:

	<u>Aug. 31,</u> <u>1960</u>	<u>Pro</u> <u>Forma</u>
Debt capital -		
First mortgage bonds	39.3%	49.0%
Debentures	10.8	9.8
Short-term borrowings	21.3	-
Total debt capital	<u>71.4</u>	<u>58.8</u>
Prior preferred stock	8.7	7.9
Common stock equity capital	19.9	33.3
Total	<u>100.0%</u>	<u>100.0%</u>
Bonds as a per cent of net plant	<u>36.5%</u>	<u>50.1%</u>
Book value per common share	\$ 7.36	\$ 8.81

We have considered this application and we find and conclude that the issue of the securities, as proposed, is not adverse to the public interest, that the money, property or labor to be procured or paid for by the issue of such securities

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. We will enter our order granting the company's requests.

The authorization herein granted is for the issue of securities and is not to be construed as indicative of amounts to be included in a future rate base for the determination of 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,

IT IS HEREBY ORDERED as follows:

1. Southwest Gas Corporation, on or after the effective date hereof and on or before February 28, 1961, may -

- a. Execute a Sixth Supplemental Indenture in, or substantially in, the same form as that filed in this proceeding as Exhibit C;
- b. Issue and sell not to exceed \$1,500,000 of First Mortgage Bonds, 6% Series due 1985, at not less than the principal amount thereof plus accrued interest, if any; and
- c. Issue and sell not to exceed 150,000 shares of its common stock to underwriters at not less than \$11.50 a share net to applicant.

2. Southwest Gas Corporation shall use the proceeds from the sale of said bonds and shares of common stock to reimburse its treasury, to discharge outstanding bank loans, and to finance the acquisition of property and the extension, construction and improvement of its facilities. The accrued interest received from the sale of said bonds may be used for said purposes or for general corporate purposes.

3. Southwest Gas Corporation shall file a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order. As soon as available, the company shall file three copies of its stock prospectus.

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.

Dated at Los Angeles, California,  
this 1st day of November, 1960.

[Signature]  
President  
[Signature]  
[Signature]  
[Signature]  
Commissioners

