

ORIGINAL

Decision No. 62819

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, Stock, Warrants and  
Options and to Carry Out the Terms  
and Conditions of an Agreement of  
Merger

Application No. 43891  
Filed October 31, 1961

O P I N I O N

This is an application for an order of the Commission authorizing the merger of Southwest Gas Corporation and Nevada Natural Gas Pipe Line Co. and the issue of securities by Southwest Gas Corporation to carry out the terms of the merger agreement.

Southwest Gas Corporation is a California corporation engaged in the distribution of natural gas in portions of the States of California, Nevada and Arizona. Nevada Natural Gas Pipe Line Co. is a Nevada corporation engaged in purchasing natural gas from El Paso Natural Gas Company at Topock, Arizona, and in transporting and reselling the same to Southwest Gas Corporation in Las Vegas and vicinity and to other public utility gas distributing companies and to certain industrial plants. The two companies are owned by separate groups of shareholders but five of the nine directors of each company are directors of both companies, all the officers of

Nevada Natural Gas Pipe Line Co. are officers of Southwest Gas Corporation, and many employees perform duties for both corporations.

The application shows that the two corporations, subject to receiving the appropriate regulatory approval, have entered into an agreement of merger whereby Nevada Natural Gas Pipe Line Co. will be merged into Southwest Gas Corporation and its separate existence terminated. Southwest Gas Corporation, as the surviving corporation, will succeed to all the assets, subject to all the debts and obligations, including certain stock options, and will issue its bonds, debentures and shares of stock in exchange for outstanding securities of Nevada Natural Gas Pipe Line Co.

Southwest Gas Corporation asserts that the merger will be advantageous to it in that the acquisition of the industrial business of Nevada Natural Gas Pipe Line Co. will improve its load factor and that the consolidation of the two separate organizations into a larger corporation should result in savings in financing costs and in strengthening its financial position. The surviving corporation will succeed to a going business which, during the 12 months ended August 31, 1961, reported revenues of \$6,645,165 and gross income of \$524,528 available for fixed charges. Exhibits attached to the application show that during the 12-months period referred to Southwest Gas Corporation earned \$1.11 a share on its outstanding common shares and that the estimated earnings, on a pro forma basis giving effect to the merger, would have been \$1.21 a share.

Upon reviewing the application and the exhibits, we find and conclude that the proposed merger will not be adverse to the public interest; that the earnings from operation of the business of Nevada Natural Gas Pipe Line Co. should be sufficient to service the securities which Southwest Gas Corporation proposes to issue in consummating the merger; that the money, property or labor to be procured or paid for through the issue of the securities herein authorized is reasonably required for the purposes specified herein; and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. An order will be entered granting the application.

The authorization herein granted is for the purpose of this proceeding only and should not be construed as a finding of value of the properties or securities referred to herein nor as indicative of amounts to be included in a future rate base, or operating expenses, for the determination of 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,

IT IS ORDERED that -

1. Southwest Gas Corporation is authorized to enter into and carry out the terms and conditions of an agreement of merger with Nevada Natural Gas Pipe Line Co. in, or substantially in, the same form as the agreement filed in this proceeding as Exhibit B.

2. Southwest Gas Corporation, for the purpose of carrying out the terms of said agreement and in effecting the exchange of securities, may execute a Seventh Supplemental Indenture in, or substantially in, the same form as the indenture filed in this proceeding as Exhibit C; may assume the obligations of Nevada Natural Gas Pipe Line Co. under its indenture dated as of March 1, 1956, and, in connection therewith, may execute a First Supplemental Indenture in, or substantially in, the same form as the indenture filed in this proceeding as Exhibit E; and may issue -

- a. Not to exceed \$730,000 of First Mortgage Bonds, 5% Series B due 1973, in exchange for a like amount of outstanding bonds, 5% Series due 1973, of Nevada Natural Gas Pipe Line Co., together with non-detachable warrants to purchase not to exceed 15,000 shares of Convertible Preferred Stock;
- b. Not to exceed \$2,250,000 of First Mortgage Bonds, 5% Series due 1976, in exchange for a like amount of bonds, 5% Series due 1976, of Nevada Natural Gas Pipe Line Co., together with an option to purchase not to exceed 12,500 shares of Convertible Preferred Stock;
- c. Not to exceed \$765,750 of 5-1/2% Subordinated Sinking Fund Debentures due March 1, 1976, in exchange for a like amount of debentures, 5-1/2% due March 1, 1976, of Nevada Natural Gas Pipe Line Co.;

- d. Not to exceed 19,806 shares of \$1.50 Dividend Cumulative Preferred Stock on a one-for-one basis in exchange for all the outstanding shares of \$1.50 Dividend Cumulative Preferred Stock of Nevada Natural Gas Pipe Line Co.;
- e. Not to exceed 278,050 shares of \$1.00 Dividend Convertible Preferred Stock as follows:
  - I - One share in exchange for each two shares of common stock of Nevada Natural Gas Pipe Line Co. with cash for fractional shares.
  - II - Not to exceed 15,000 shares for cash at \$5.34 a share, at any time prior to October 1, 1965, pursuant to the non-detachable warrants attached to the First Mortgage Bonds referred to in Paragraph 2.a. above.
  - III - Not to exceed 12,500 shares for cash at \$14 a share, at any time prior to March 1, 1968, pursuant to the option referred to in Paragraph 2.b. above.
  - IV - Not to exceed 10,550 shares, pursuant to restricted stock options heretofore granted certain key employees, and to issue options to purchase said shares in exchange for options to purchase common shares of Nevada Natural Gas Pipe Line Co.
- f. Not to exceed 278,050 common shares (or such other number of shares as may be required) in exchange for shares of the \$1.00 Dividend Convertible Preferred Stock at the then applicable conversion price upon the exercise by the holders of conversion privileges.

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 shall become effective when Southwest Gas Corporation has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,373.

Dated at San Francisco, California,  
this 21<sup>st</sup> day of NOVEMBER, 1961.

*Frederick B. Hallock*  
President  
*George L. Grover*  
*C. Lynn Fox*  
*George L. Grover*  
*Frederick B. Hallock*  
Commissioners

