

ORIGINAL

Decision No. 63893

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SOUTHWEST GAS CORPORATION for
Authority to Issue First Mortgage
Bonds

Application No. 44535

Charles H. McCrea, for applicant;
Sidney J. Webb, for the Commission
staff.

O P I N I O N

This is an application for an order of the Commission (1) authorizing Southwest Gas Corporation to execute a supplemental indenture and to issue and sell \$5,000,000 of first mortgage bonds and (2) exempting the issue and sale of the bonds from competitive bidding.

The application was filed on June 12, 1962. A public hearing was held before Examiner Coleman in San Francisco on July 2, 1962, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The bonds will constitute a new series known as "First Mortgage Bonds, 5-1/2% Series due 1987." They will be redeemable at the option of the company at a premium of 5.5%, if redeemed on or before June 30, 1967, and thereafter at annually reducing premiums, provided that no redemption of said bonds shall be made at the option of the company prior to July 1, 1967, as a part of, or in anticipation of, any refunding operation by the application directly, or indirectly, of borrowed funds. Applicant proposes to sell the \$5,000,000 of bonds, under negotiated arrangements, at their face value, plus accrued interest, to The Mutual Life Insurance Company of New York, Modern Woodmen of America, Massachusetts Mutual Life Insurance Company and Pacific Mutual Life Insurance Company.

The purpose of the financing is to provide applicant with funds, after paying expenses incident to the sale of the bonds, to pay outstanding bank loans in the amount of \$1,700,000 which represent interim financing of capital additions, to purchase, at par, \$2,500,000 of the 5-1/2% cumulative convertible preferred stock of Nevada Northern Gas Company, which is, or will be, a subsidiary corporation, and to reimburse its treasury and increase its working capital.

The application shows that Nevada Northern Gas Company is a Nevada corporation which will be engaged as an intrastate natural gas transmission company subject to the jurisdiction of the Nevada Public Service Commission. It proposes to purchase gas from El Paso Natural Gas Company at a point on the Idaho-Nevada state line and to transmit such gas through a high pressure pipeline to the Reno-Sparks area, with service at wholesale to utilities distributing gas to the various communities along the route, and to construct extensions from the Reno-Sparks area to Carson City, Minden, Gardnerville and the Lake Tahoe area.

It is reported that Nevada Northern Gas Company has received a certificate of public convenience and necessity from the Nevada Public Service Commission to construct the project and that an application is pending before the Federal Power Commission for a certificate authorizing El Paso Natural Gas Company to construct a line from a point near Mountain Home, Idaho, to the point of connection with Nevada Northern Gas Company.

Nevada Northern Gas Company has not commenced its construction and the record is clear that it will not undertake to do so and that applicant will not advance its bond proceeds to acquire the preferred shares of the Nevada company until all regulatory operative authorities have been obtained. Applicant has caused a feasibility study to be made and has

concluded, in the exercise of its managerial judgment, that the project can be undertaken and successfully operated under the contemplated terms and conditions.

As to the proposal of the company to use bond proceeds to reimburse its treasury and augment its working capital, the record shows that applicant's volume of business has been increasing rapidly, that as of March 31, 1962, its current liabilities aggregated \$6,148,999, as compared with current assets of \$4,724,749, and that during the year ending September 30, 1963, it will be called upon, so it estimates, to make expenditures of \$3,500,000 for additions and betterments to its plants and facilities.

The company's financial statement filed as Exhibit B shows that for the twelve months ended March 31, 1962, its operating revenues amounted to \$15,323,350 and its gross income, before federal income taxes, to \$2,743,512, as compared to interest charges of \$594,677. Its capital ratios, as of March 31, 1962, and as adjusted to give effect to the proposed bond issue, are reported as follows:

| | <u>Mar. 31,</u> <u>1962</u> | <u>Adjusted</u> |
|----------------------|--------------------------------|-----------------|
| First mortgage bonds | 41.2% | 57.1% |
| Debentures | 8.8 | 7.6 |
| Bank loans | 8.7 | - |
| Preferred stock | 12.6 | 10.8 |
| Common stock equity | <u>28.7</u> | <u>24.5</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

In order to proceed with its plans for the sale of its bonds, applicant seeks exemption from the Commission's competitive bidding rule for the sale of securities. The application shows presently outstanding bonds and debentures in the aggregate amount of \$9,792,145 divided into twelve different issues ranging in size from \$176,000 to \$2,100,000, that all of said issues are held by institutional investors except an issue of \$633,000 of 6% debentures and an issue of \$724,625 of 5-1/2% debentures, by one of applicant's predecessors, which are held by the general public, and that these two issues are selling on the open market at below face value, notwithstanding the substantial interest coverage. Applicant's financial officer testified that in endeavoring to dispose of the presently proposed bonds discussions and negotiations were had with a number of prospective purchasers and that the proposed interest rate and terms were the best which could be obtained at the time.

Applicant's first bond financing occurred in 1951. The presently proposed issue, while the largest in applicant's experience, is relatively small in size. As indicated, none of applicant's earlier bond issues are held by the public and in view of the present market conditions, it seems quite likely applicant can obtain as good a price, if not better, under negotiated arrangements as it could under competitive bidding. We find and conclude that an order is warranted exempting the proposed issue from competitive bidding, that such issue is

for proper purposes and will not threaten to impair applicant's ability to render its public service in California, that the earnings should be ample to service the issue, and that applicant will be required to pay a lower interest rate than it would in the absence of the restricted redemption provision which will inure to the benefit of the public. We will enter an order granting the application.

In entering this order we place applicant upon notice that we are making no finding of the value of its properties or investments and that the approval given herein is for the issue of securities and shall not be construed as indicative of amounts to be included in a future rate base or in operating expenses or financial requirements for the purpose of fixing just and reasonable rates in California.

O R D E R

A public hearing having been held in the above-entitled application and the Commission having considered the matter and being of the opinion that the money, property or labor to be procured or paid for through the issue of the bonds 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; therefore,

IT IS ORDERED that -

1. The issue and sale by Southwest Gas Corporation of \$5,000,000 principal amount of First Mortgage Bonds, 5-1/2% Series due 1987, hereby is exempted from the provisions of the Commission's competitive bidding rule set forth in Decision No. 38614, as amended by Decision No. 49941.

2. Southwest Gas Corporation, on or after the effective date hereof and on or before December 31, 1962, may issue and sell said \$5,000,000 of bonds at not less than their face value, plus accrued interest, for the purposes set forth in this application, and may execute an Eighth Supplemental Indenture in the same form, or substantially in the same form, as that annexed to the application as Exhibit D.

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 \$2,650.

Dated at San Francisco, California,
this 10th day of JULY, 1962.

George G. Grover
President

[Signature]

[Signature]

[Signature]

Fredrick B. Hill
Commissioners

