

**ORIGINAL**

**66461**

Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application  
of SOUTHWEST GAS CORPORATION  
for authority to issue securities  
and to carry out the terms and  
conditions of an Agreement of  
Merger.

Application No. 45964  
Filed November 15, 1963

O P I N I O N

By this application Southwest Gas Corporation (Southwest), in order to carry out the terms and conditions of an Agreement of Merger whereby Nevada Northern Gas Company (Nevada Northern), an affiliated company, would be merged into Southwest, requests that the Commission authorize -

- (1) The execution of an Agreement of Merger between Nevada Northern and Southwest;
- (2) Southwest to assume liability under \$8,000,000 principal amount of First Mortgage Bonds, 5-1/2% Series due 1987 of Nevada Northern;
- (3) Southwest to create, after the effective date of the merger, a new series of bonds in the principal amount of \$8,000,000 to replace the bonds of Nevada Northern, the liability on which it proposes to assume;
- (4) Southwest to issue not to exceed 129,409 shares of its common stock in exchange for all the outstanding shares of common stock of Nevada Northern; and
- (5) Southwest to issue 11,100 shares of its common stock to certain officers and key employees under an Incentive Stock Option Plan to replace stock options heretofore executed by Nevada Northern.

Southwest, a California corporation, is engaged in the business of selling and distributing natural and liquefied petroleum gas as a public utility in the States of Arizona, California and Nevada. Nevada Northern, a Nevada corporation, is engaged primarily in the transmission of natural gas from a point on the Idaho-Nevada border to the Reno-Sparks and Carson City areas in Nevada. All of Nevada Northern's facilities are located in the State of Nevada.

Southwest and Nevada Northern have entered into an Agreement of Merger dated as of November 12, 1963 whereby Nevada Northern would be merged into Southwest and its separate corporate existence terminated leaving Southwest as the surviving corporation. Southwest presently owns all of the outstanding preferred stock of Nevada Northern and 2,271 shares of its common stock. The outstanding preferred stock of Nevada Northern is to be canceled upon the consummation of the merger.

Southwest, as the surviving corporation, will succeed to all the rights and properties and will be responsible for all the debts, liabilities and obligations of Nevada Northern, including that pertaining to the \$8,000,000 of first mortgage bonds heretofore issued by Nevada Northern; will issue shares of its stock for outstanding shares of the stock of Nevada Northern on the basis of 0.6 shares of common stock of Southwest for each share of common stock of Nevada Northern; and will issue shares of its common stock upon the exercise of certain restricted stock options to be issued to key employees

of Southwest in exchange for restricted stock options previously granted to key employees of Nevada Northern. Southwest will transfer to its books of account the balances in the plant and related reserve accounts of Nevada Northern and the other asset and liability accounts subject to only such changes as may be required by the adjustment of the capital stock accounts.

The first mortgage bonds of Nevada Northern, which will become an obligation of Southwest under the terms of the Agreement of Merger, are dated November 1, 1962, are due November 1, 1987, carry an interest rate of 5-1/2%, are redeemable at 105.5% of the principal amount if redeemed prior to October 1, 1967, and at reducing premiums thereafter, provided, however, that the bonds may not be redeemed prior to October 1, 1967, directly or indirectly, from, or in anticipation of, any borrowings by the company having an interest rate or cost to the company of less than 5-1/2% per annum. The proceeds from the issue of these bonds were used to finance, in part, the construction program of Nevada Northern.

Nevada Northern heretofore issued restricted stock options to certain of its key employees to purchase 18,500 shares of its common stock at \$11 per share prior to September 10, 1972. It is proposed that Southwest would issue options to purchase 11,100 shares of its common stock at \$18.33-1/3 per share in exchange for the options previously issued by Nevada Northern. The basis of the exchange is proportionate to the exchange ratio of Southwest's common

stock for Nevada Northern's common stock. The restricted stock options to be issued by Southwest are identical in form to those previously authorized by this Commission for Southwest and follow conventional lines. The proceeds to be realized from the sale of this stock will be used to finance, in part, future construction programs of Southwest. Southwest has requested that it be authorized to create, after the effective date of the merger, a new issue of bonds in the principal amount of \$8,000,000 to replace the bonds of Nevada Northern, the liability on which it will assume under the terms of the merger, and to execute a supplemental trust indenture in connection with the issue of such bonds. The Commission does not have before it at this time the definitive terms of the bond issue. It appears that the granting of this request is not a condition precedent to the consummation of the proposed merger and that the request could best be considered at a subsequent date when Southwest can file with the Commission an application to issue such bonds, together with a copy of the supplemental trust indenture it proposes to execute in connection therewith.

Upon a full review of the application, we are of the opinion, and find, that the proposed merger will not be adverse to the public interest; that the money, property or labor to be procured or paid for by the issue of the shares of stock 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. A public hearing is not necessary.

The authorization herein granted is not to be construed to be a finding of the value of the properties or shares of stock of the two companies nor indicative of amounts to be included in future proceedings for the purpose of determining just and reasonable rates. Such authorization is for the purpose of this proceeding only, is permissive only, and is not to be construed as requiring any shareholder to surrender his shares for exchange.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation is authorized to enter into an Agreement of Merger with Nevada Northern Gas Company in the same form, or in substantially the same form, as that annexed to the application and marked Exhibit B, whereby Nevada Northern Gas Company is to be merged into Southwest Gas Corporation.
2. Southwest Gas Corporation, as the surviving corporation under said Agreement of Merger, is authorized to assume all the debts, liabilities and obligations of Nevada Northern Gas Company.
3. Southwest Gas Corporation, as the surviving corporation under said Agreement of Merger, in exchange for shares of common stock of Nevada Northern Gas Company, may issue not to exceed 129,409 shares of its common stock on the basis of 0.6 shares of common stock of Southwest Gas Corporation for each share of common stock of Nevada Northern Gas Company.

4. Southwest Gas Corporation is authorized to issue not to exceed 11,100 shares of its common stock at not less than \$18.33-1/3 per share under and pursuant to the terms of an Incentive Stock Option Plan for Key Employees, a copy of which is annexed to the application and marked Exhibit D.

5. The request of Southwest Gas Corporation for authorization to issue new bonds in the principal amount of \$8,000,000 to replace the bonds of Nevada Northern Gas Company, the liability which it will assume under the terms of the merger, is denied. Southwest Gas Corporation may file a new application requesting such authorization when the terms and conditions of the proposed issue have been ascertained.

6. Within sixty days after the consummation of the merger, Southwest Gas Corporation shall file with the Commission a copy of each journal entry used to record the merger on its books of account.

7. Southwest Gas Corporation, in connection with the issue of the 129,409 shares of its common stock and in lieu of a report under General Order No. 24-A, shall file with the Commission, on or before the 25th day of each month until such issue as herein authorized to be exchanged for stock of Nevada Northern Gas Company has been completed, reports showing the number of shares of stock issued under the authorization herein granted in exchange for the shares of stock of Nevada Northern Gas Company and showing the number of shares of stock of Nevada Northern Gas Company whose owners

have elected to take cash for their holdings and the total amount of cash paid to such owners. For the 11,100 shares of common stock to be issued by Southwest Gas Corporation under its Incentive Stock Option Plan for Key Employees, it shall file with the Commission a report, or reports, as required by General Order No. 24-A.

8. The authority herein granted to issue 129,409 shares of common stock of Southwest Gas Corporation shall expire if not exercised by June 30, 1964.

9. This order shall become effective on the date hereof.

Dated at San Francisco, California, this 17 day of DECEMBER, 1963.

William L. Bennett  
President

James S. Hutchins  
Everett W. Leary

George J. Grover

Fredrick B. Holbrook  
Commissioners