ORIGINAL

Decision No. 68761

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHWEST GAS CORPORATION for Authority to Issue and Sell 107,000 Shares of Common Stock, and for Exemption from Competitive Bidding.	Application No. 47388 Filed March 5, 1965

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 authorizing Southwest Gas Corporation to issue and sell, exempt from competitive bidding, 107,000 shares of its $1 par value common stock, together with subscription warrants representing rights to purchase said stock.

After due notice, a public hearing in this matter was held before Examiner Donovan in Los Angeles, on March 17, 1965, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

Applicant is a California corporation engaged in the business of distributing and selling natural gas and liquefied petroleum gas in portions of San Bernardino County, California.

In addition, the company transmits, sells and distributes natural gas in portions of the States of Arizona and Nevada.

The company's current financing program anticipates net proceeds aggregating $12,000,000, of which approximately $3,000,000 would be derived from the sale of common stock as proposed in this proceeding, $6,000,000 from bonds to be sold at competitive bidding, and $3,000,000 from preferred stock. Of such $12,000,000 net proceeds, applicant proposes to utilize $7,000,000 for repaying outstanding short-term bank borrowings incurred for capital expenditures, and to expend the balance on its construction program or to reimburse its treasury for funds already expended for construction. A comparison of the company's capitalization ratios at January 31, 1965, with the pro forma ratios giving effect to said proposed $12,000,000 of financing, is as follows:

	Jan. 31, 1965	Pro Forma
Long-term debt	57.8%	56.1%
Preferred stock	10.6	13.8
Common stock equity	31.6	30.1
Total	100.0%	100.0%

Applicant proposes to offer 107,000 shares of its common stock, together with the rights to subscribe therefor, to the holders of its common stock and $1 Dividend Convertible Preferred Stock on a record date to be established. Holders of the company's common stock will receive one right for each share of common stock held on the record date, and holders of the company's $1 Dividend Convertible Preferred Stock will receive two rights for each share of said preferred stock held on the record date. Subscription rights will be represented by warrants, and twenty rights will be required in order to subscribe for each share of the stock. Fractional shares will not be issued. Each share of the $1 Dividend Convertible Preferred Stock is convertible at the option of the holder into two shares of common stock. The company reports that at February 10, 1965, it had outstanding 84,287 shares of $1 Dividend Convertible Preferred Stock and 1,968,439 shares of common stock.

The subscription price applicable to the common stock will approximate 10 percent below the bid price on the over-the-counter market on the date public offering commences. A quotation of the bid price at the time of the hearing was $34 per share. Certain underwriters propose to make a firm standby commitment to purchase all unsubscribed shares at the subscription price. Applicant will pay for such commitment 30 cents per share (or $32,100 for the 107,000 shares) plus an additional 50 cents per share with respect to each share of unsubscribed stock and each share acquired by the underwriters through the exercise of rights purchased by them. In the event that not more than three percent of the shares remain unsubscribed, applicant will receive any excess over the subscription price received by the underwriters during the thirty-day period following expiration of the rights. If between three percent and ten percent of the shares remain unsubscribed, applicant will receive 50 percent of such excess. The excess in either instance would be computed after deducting all expenses incident to the sales.

None of applicant's stock has pre-emptive rights to subscribe to new offerings of stock and, in view of the fact that the proceeds to be derived from the proposed issue of 107,000 shares of common stock might exceed $3,000,000, the company requests the Commission to grant an exemption from its competitive bidding rule. In support of such request, applicant asserts that: (a) the proposed method of selling does not establish an arbitrary value on the stock, and the discount from the market price is a customary and reasonable one; (b) it does not believe that any other method of distribution would result in lower underwriting commissions; (c) it believes that its existing shareholders represent the most receptive and most knowledgeable market for the stock, and the proposed method of distribution will result in less disruption of the market for the company's common stock and $1 Dividend Convertible Preferred Stock than would any other method; (d) the proposed subscription price does not constitute an excessive benefit to existing shareholders; (e) the price per share and the amount to be received for the stock will have no effect on the company's present or future rates; and (f) the expenses involved in a competitive bidding offering are substantially higher than those involved in the proposed rights offering.

The Commission has considered this matter and finds that: (1) the proposed stock issue is for proper purposes; (2) applicant will have need for funds from external sources for the purposes set forth in this proceeding; (3) applicant's plan for selling 107,000 shares of common stock without competitive bidding will not be adverse to the public interest; (4) the money, property or labor to be procured or paid for by the issue of the stock herein authorized is reasonably required for the purposes specified herein; and (5) such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings we conclude that the application should be granted.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of the value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Southwest Gas Corporation of 107,000 shares of its $1 par value common stock are hereby exempted from the Commission's competitive bidding rule which is set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954.

2. On or after the effective date hereof and on or before August 31, 1965, Southwest Gas Corporation may issue and sell 107,000 shares of its $1 par value common stock, together with subscription warrants representing rights to purchase such stock, to the holders of its $1 Dividend Convertible Preferred Stock and common stock and to the general public, all as specified in the application, at a price per share not lower than 10 percent below the latest available quoted bid price of its common stock on the over-the-counter market on the day the offering of the stock commences.

3. Southwest Gas Corporation shall use the proceeds from the sale of such stock for the purposes set forth in this proceeding.

4. Within thirty days after issuing the stock herein authorized, Southwest Gas Corporation shall file with the Commission three copies of its prospectus and a report showing the number of holders of its $1 Dividend Convertible Preferred Stock and common stock on the record date, the number of shares

subscribed by shareholders, by others upon purchase of rights to subscribe, and by underwriters. Such report shall be filed in lieu of a report, or reports, under General Order No. 24-B.

5. Within six months after issuing the stock herein authorized, Southwest Gas Corporation shall file with the Commission a report showing the expenses incurred in connection with the issue and sale of such 107,000 shares of common stock and the account, or accounts, to which such expenses were charged.

6. The effective date of this order shall be five days after the date hereof.

Dated at San Francisco, California, this 23rd day of March, 1965.

Frederick B. Holoboff
President

[illegible]

George G. Grover

[illegible]

William M. Bennett
Commissioners