

**ORIGINAL**

Decision No. 72021

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 )  
Not to Exceed \$5,000,000 )  
Aggregate Principal Amount of )  
its Debentures, 7% Series due )  
1987, and for Exemption from )  
Competitive Bidding. )

Application No. 49067  
Filed January 3, 1967

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 execute an Indenture, and to issue and sell, exempt from competitive bidding, \$5,000,000 aggregate principal amount of its Debentures, 7% Series Due 1987.

After due notice, a public hearing in this matter was held before Examiner Donovan in San Francisco on January 23, 1967, 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 in portions of Placer County and San Bernardino County, California,

subject to the jurisdiction of this Commission. In addition, the company transmits natural gas in interstate commerce and engages in the intrastate transmission, sale and distribution of natural gas in portions of the States of Arizona and Nevada. The testimony shows that the utility derives 75% of its revenues from operations in Nevada and the remainder from operations in California and Arizona in percentages of 13% and 12%, respectively.

The proposed debentures will be issued under a new Indenture to be dated as of March 1, 1967. They will bear a maturity date of March 1, 1987, and will be redeemable prior to March 1, 1968 at a premium of 7% together with accrued interest, and thereafter at annually decreasing premiums. Prior to March 1, 1975, however, such debentures may not be redeemed at the option of the company as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of borrowed funds having an interest rate or cost to applicant of less than 7% per annum.

With respect to the restricted redemption provision extending over a period of eight years, the record shows that such has been the subject of hard bargaining between applicant's representative, Eastman Dillon, Union Securities & Co., and the prospective purchasers of the debentures. The record further shows that the interest rate and other terms of the debentures would be correspondingly less favorable to applicant if there were no limitation upon refunding, or if such limitation should prevail for a shorter period than eight years.

A portion of the net proceeds, other than accrued interest, to be obtained from the sale of the debentures is anticipated to be used for the purpose of repaying \$4,500,000 of previously authorized bank indebtedness incurred, or to be incurred, for capital expenditures; the balance will be expended on applicant's construction program or to reimburse its treasury for funds so expended. The accrued interest will be used for general corporate purposes. The record also shows that the company's bank borrowings aggregate \$8,500,000 and that additional borrowings and repayments are expected to result in \$4,000,000 of outstanding bank borrowings at August 31, 1967.

The utility anticipates receiving \$2,800,000 of the debenture issue proceeds in March, 1967 and the remaining \$2,200,000 in August, 1967. Its actual and estimated capital structures, by percentages as of December 7, 1966 and August 31, 1967, respectively, are obtained from Exhibit C, attached to the application, as follows:

	<u>Dec. 7, 1966</u>	<u>Aug. 31, 1967</u>
First mortgage bonds	52%	50%
Debentures	1	7
Bank loans	12	6
Preferred stock	10	10
Common stock equity	<u>25</u>	<u>27</u>
Total	<u>100%</u>	<u>100%</u>

Although the company's equity ratio is below that which is desirable, the present capital structure of applicant, together with the depressed market price of its common stock, preclude consideration at this time of any long-term financing by means other than debentures. In this connection applicant's chief financial officer testified that the company's normal operations will generate additional equity capital, and that the long-term indebtedness cannot exceed 65% of total capitalization in accordance with the proposed Indenture.

As support for exemption from competitive bidding, a representative of Eastman Dillon, Union Securities & Co. testified that, in view of various state regulations, the relatively low ratings which could be expected for the debentures in the light of ratings assigned to applicant's bonds would eliminate from consideration many prospective purchasers which are available for contacting in connection with a private sale where no ratings would be established.

The record shows that applicant has firm commitments from 11 institutional investors to purchase all of the debentures at 100% of their principal amount plus accrued interest from March 1, 1967, and that such commitments were obtained under market conditions prevailing near the end of 1966 when the company sold through competitive bidding \$7,500,000 aggregate principal amount of its First Mortgage Bonds, 6-3/4% Series due 1991, at a net cost of money to it of 6.8756% per annum. Considering the general unsecured obligation nature of the debentures as compared with the first lien security applicable

to the bonds, it is apparent that in the same money market the debentures would burden applicant with a higher cost of money than would the bonds.

The effect of a lower interest rate which might be obtainable for the debentures under present money market conditions would be negligible, especially insofar as customers in California are concerned, in which State applicant conducts only a minor portion of its operations. The testimony shows that failure to fulfill its present moral commitments with the proposed purchasers of the debentures and with the present source of its temporary borrowings would jeopardize the company's future reputation among potential lenders and investors.

From a review of the application, testimony and exhibits, and noting the absence of any opposition, we find that:

1. The proposed debenture issue will be for proper purposes.
2. Applicant has need for funds from external sources for the purposes set forth in this proceeding.
3. Applicant will be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision.
4. The proposed Indenture will not be adverse to the public interest.
5. The issue and sale of the proposed debentures should not be required to be through competitive bidding.
6. Money market conditions prevailing at the time of negotiation support the terms of the proposed debentures.

7. The money, property or labor to be procured or paid for by the issue of the debentures herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed 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 not to exceed \$5,000,000 aggregate principal amount of its Debentures, 7% Series Due 1987, are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended by Decision No. 49941, dated April 20, 1954, in Case No. 4761.
2. Southwest Gas Corporation may execute and deliver an Indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit No. 1.
3. Southwest Gas Corporation may issue and sell not to exceed \$5,000,000 aggregate principal amount of its Debentures, 7% Series Due 1987, at not less than their principal amount plus accrued interest, and shall use the proceeds for the purposes set forth in this proceeding.

4. Southwest Gas Corporation shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. This order shall become effective when Southwest Gas Corporation has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$500.

Dated at San Francisco, California,  
this 15<sup>th</sup> day of FEBRUARY, 1967.

*John E. Mitchell*  
President

*William W. Bennett*

*Augustine*

*William J. Quinn*

*Paul P. Housley*  
Commissioners

