

ORIGINAL

Decision No. 78838

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 )  
 \$5,000,000 Aggregate Principal )  
 Amount of First Mortgage Bonds, )  
 3-7/8% Series Due 1996 on a )  
 Negotiated Basis )

Application No. 52622  
Filed May 13, 1971

Darrell L. Clark, for applicant.  
Sidney J. Webb, for the Commission staff.

O P I N I O N

Southwest Gas Corporation requests an order of the Commission authorizing it to execute a supplemental indenture, and to issue and sell on a negotiated basis \$5,000,000 aggregate principal amount of its bonds.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on June 8, 1971, at the conclusion of which the matter was taken under submission.

Applicant is a California corporation engaged in the business of distributing and selling natural gas in portions of Placer and San Bernardino counties in California. In addition, the company transmits, sells and distributes natural

gas in portions of the States of Arizona and Nevada. For the 12 months ended March 31, 1971, the utility reports that it derived 11% of its revenues from operations in Arizona, 13% from California and 76% from Nevada.

The new issue would be designated as First Mortgage Bonds, 8-7/8% Series due 1996, and would be secured by an Indenture of Mortgage and Deed of Trust dated as of June 1, 1951, as heretofore amended and supplemented and as further amended and supplemented by a proposed Fourteenth Supplemental Indenture. The bonds would be subject to a ten-year restricted redemption provision.

The company intends to sell the new bonds under the terms and conditions of a Bond Purchase Agreement to be entered into by applicant and each of five purchasers. The price would be 100% of the principal amount plus accrued interest. The proceeds, other than accrued interest, would be used for repaying previously authorized bank loans outstanding at the time of the closing and incurred for construction purposes. The accrued interest would be used for general corporate purposes.

Applicant's capitalization ratios on March 31, 1971, adjusted to give effect to the proposed \$5,000,000 bond issue, as set forth in Exhibit No. 1 filed in this proceeding, are as follows:

Long-term debt	61%
Preferred stock	8
Common stock equity	<u>31</u>
Total	<u>100%</u>

The utility bases its support for exemption from competitive bidding upon (a) the company's very limited history in the public bond market which has not been altogether satisfactory, (b) ratings of those of applicant's currently outstanding bonds sold through competitive bidding (Moody - Ba; Standard & Poor - BBB), (c) interest coverages not greatly in excess of required minimums, (d) investor concern in the capital markets upon the subject of future supply for the natural gas industry, and (e) the economic dependence upon gaming and tourism in a large part of the company's service area. Applicant believes that it has negotiated a proposed sale for the new bonds upon terms and conditions and at a net interest cost to it far more satisfactory for the company and its ratepayers than it would have been able to obtain through an offering of the new bonds under competitive bidding.

After consideration the Commission finds that:

1. The proposed bond issue is for proper purposes.
2. Applicant has need for external funds for the purposes set forth in this proceeding.
3. Applicant would be required to pay interest at a lower rate than it would in the absence of the proposed restricted redemption provision.

4. The proposed supplemental indenture would not be adverse to the public interest.
5. The issue and sale of the proposed bonds should not be required to be through competitive bidding.
6. The money, property or labor to be procured or paid for by the issue of the bonds 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 exceeding \$5,000,000 aggregate principal amount of its First Mortgage Bonds, 8-7/8% Series due 1996 are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.
2. Southwest Gas Corporation may execute and deliver a Fourteenth Supplemental Indenture in the same form, or in substantially the same form, as Exhibit No. 5 filed in this proceeding.

3. Southwest Gas Corporation may issue and sell not exceeding \$5,000,000 aggregate principal amount of its First Mortgage Bonds, 8-7/8% Series due 1996, under the terms and conditions set forth in a Bond Purchase Agreement in the same form, or in substantially the same form, as Exhibit D attached to the application.

4. Southwest Gas Corporation shall use the proceeds from the sale of the bonds herein authorized for the purposes specified in this proceeding.

5. 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.

6. The effective date of this order is the date hereof.

Dated at San Francisco, California, this 27th day of JUNE, 1971.

[Signature]  
Chairman

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners