

ORIGINAL

Decision 84 09 018

SEP 6 1984

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 in the Aggregate)
1,000,000 Shares of its Common)
Stock to its Customer Stock)
Purchase Plan, Employee Stock)
Ownership Plan and Dividend)
Reinvestment and Stock Purchase)
Plan.)

Application 84-06-094
(Filed June 28, 1984)

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority under Public Utilities (PU) Code Sections 818 through 830, to issue and sell up to 1,000,000 shares of its Common Stock, \$1 par value, to its Customer Stock Purchase Plan (CSPP), Employee Stock Ownership Plan (ESOP) and its Dividend Reinvestment and Stock Purchase Plan (DRSPP), collectively referred to as the Plans.

Summary of Decision

This decision grants Southwest the authority requested in the application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of July 2, 1984. No protests have been received.

Southwest, a California corporation, distributes and sells natural gas in portions of San Bernardino and Placer Counties. Also, the utility transmits, sells and distributes natural gas in portions of the states of Nevada and Arizona.

Based on Southwest's Statement of Income for the fiscal year ended April 30, 1984, the utility reported total operating revenues of \$371,994,335 and net income of \$15,222,645, shown as part of Exhibit B attached to the application. For the fiscal year ended April 30, 1984, Southwest reports the utility derived \$41,123,000 or 11.05% of its revenues from operations in California. For the year ended December 31, 1983, Southwest reported that it derived 11.09% of its revenues from operations in California.

Southwest's Balance Sheet as of April 30, 1984, also attached as part of Exhibit B to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$274,998,374
Other Property and Investments	8,744,855
Current and Accrued Assets	54,008,040
Deferred Debits	<u>9,242,039</u>
Total	\$346,993,308
 <u>Liabilities and Equity</u>	
Common Stock Equity	\$114,320,401
Preferred/Preference Stock	21,340,000
Long-Term Debt	93,804,643
Current and Accrued Liabilities	83,971,419
Deferred Credits	<u>33,556,845</u>
Total	\$346,993,308

Southwest proposes to issue and sell to its Plans up to 1,000,000 shares of Southwest's Common Stock, \$1 par value, estimated to produce net proceeds in excess of \$11,500,000 at an estimated price of \$11.50 per share. These plans are described as follows:

1. The CSPP, established in 1981, is designed to encourage systematic investment in the common stock of Southwest by its retail, nongovernmental customers. Also, the CSPP provides the opportunity for these customers to become stockholders of the utility and strengthen their direct interest in the progress and success of Southwest.
2. The ESOP, initially established in 1976 and elected each year subsequently, is a stock bonus plan which enables employees to share in the growth of the utility by acquiring shares of common stock of Southwest as an additional benefit of employment without requiring the employees to invest their personal savings. The contributions, which Southwest makes to the ESOP, arise from the additional investment credit against federal income taxes that Southwest is permitted to claim because of the ESOP.
3. The DRSP, established in 1974, provides holders of record of Southwest's common stock with a simple and convenient method of investing cash dividends and optional cash payments in additional shares of common stock of Southwest at regular intervals without payment of any brokerage commission or service charge.

No significant issuance expenses and no underwriting commissions are applicable to the Plans because the periodic sales, as are contemplated, will be direct sales of common stock by Southwest to the participants in its respective Plans. The price of the common stock to the Plans (and the proceeds to Southwest) will depend upon the New York Stock Exchange prices of the common stock and the pricing formulas established in the Plans.

According to the application, Southwest has need to sell its equity securities periodically in order to reduce or repay Southwest's short-term borrowings and raise additional capital funds for its construction program. Also, Southwest states in its application that the utility needs to maintain the common stock component of its capital structure at or near the present level, in order to maintain the strength of that structure.

Attached to the application as part of Exhibit B, Southwest shows short-term debt outstanding of \$24,000,000 as of April 30, 1984.

Southwest proposes to use the proceeds from the periodic sales of the common stock to repay those short-term borrowings as may be incurred for capital improvements prior to the sale of the common stock and to pay for additional capital improvements to Southwest's facilities.

Southwest is engaged in an extensive construction program and estimates that the expenditures required for its construction program during calendar years 1984 and 1985 will approximate \$27,000,000 and \$41,300,000, respectively, summarized as follows:

<u>Purpose</u>	<u>1984</u>	<u>1985</u>
Pataya Project ^{1/}	\$ 0	\$ 9,300,000
Non-Project Construction	25,000,000	30,000,000
EII-Net Expenditures	<u>2,000,000</u>	<u>2,000,000</u>
Total	\$27,000,000	\$41,300,000

^{1/} Separate project financing.

Southwest's capital ratios reported as of April 30, 1984 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>April 30, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	37.0%	62.3%
Short-Term Debt	<u>9.5</u>	<u>0</u>
Total	46.5%	62.3%
Preferred/Preference Stock	8.4	5.5
Common Stock Equity	<u>45.1</u>	<u>32.2</u>
Total	100.0%	100.0%

1. The issuance and sale of up to \$20,000,000 aggregate principal amount of Southwest's First Mortgage Bonds on June 8, 1984 authorized by Decision (D.) 84-06-018 dated June 6, 1984 in Application (A.) 84-05-055.
2. The proposed issuance and sale of up to \$130,000,000 aggregate principal amount of Southwest's intermediate-term debt authorized by D.84-07-010 dated July 5, 1984 in A.84-03-091, as amended.
3. The proposed issuance and sale of up to 1,000,000 shares of Southwest's Common Stock, \$1 par value, at an assumed price of \$11.50 per share, estimated to produce net proceeds of \$11,500,000 under Southwest's Plans.

The Commission's Evaluation and Compliance Division has reviewed Southwest's construction budgets for 1984 and 1985 and finds that the sale of its common stock is necessary to fund the planned construction. The Division is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

The Evaluation and Compliance Division has analyzed Southwest's cash requirements forecast, shown attached to the application as part of Exhibit C. The Division has concluded that internally generated funds will provide only 12.7% of capital expenditures for 1984, 48.4% for 1985 and 32.5% for 1986. Also, the Division has concluded that the proposed sale of Southwest's common stock, as requested in the application, is necessary to help meet the utility's forecasted cash requirements.

Findings of Fact

1. Southwest, a California corporation, operates under the jurisdiction of this Commission.

2. The proposed issue and sale of Southwest's common stock would be for proper purposes.

3. Southwest has need for external funds for the purposes set forth in the application.

4. The money, property or labor to be procured or paid for by the proposed sale of the common stock is reasonably required for the purposes specified in the application, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

5. There is no known opposition to the application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent set forth in the order which follows.

In issuing our order, we place Southwest and its stockholders on notice that the number of shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment.

This authorization is not a finding of the value of Southwest's stock or property nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be effective on the date of signature and payment of the fee set by PU Code Sections 1904.1 and 1904.2, to enable Southwest to proceed with the sale of common stock under its Plans expeditiously.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest), on or after the effective date of this order, may issue and sell not to exceed in the aggregate, 1,000,000 shares of its Common Stock, \$1 par value, to its Customer Stock Purchase Plan, Employee Stock Ownership Plan and its Dividend Reinvestment and Stock Purchase Plan in the manner set forth in the application.
2. Southwest shall apply the net proceeds from the sale of this common stock for the purposes set forth in the application.
3. As soon as available, Southwest shall file with the Commission three copies of its final prospectuses pertaining to the sales of the common stock authorized by this order.
4. Southwest shall file the reports required by General Order Series 24.

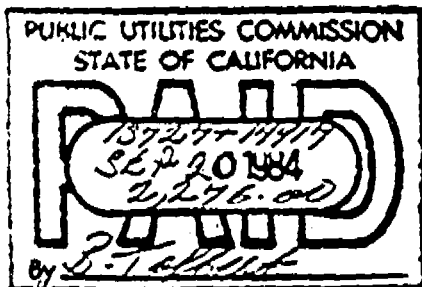
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5. The authority granted by this order to issue common stock will become effective when Southwest pays \$2,276, the fee set by PU Code Sections 1904.1 and 1904.2. In all other respects, this order is effective today.

6. The application is granted as set forth above.

Dated SEP 6 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Joseph E. Bodovitz
Joseph E. Bodovitz, Executive Director