

EC/KLH

Decision 87 11 00S

ORIGINAL NOV 13 1987

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)
Exceeding \$75,000,000 Aggregate)
Principal Amount of New Long-)
Term Debt. (U 905 G))

Application 87-09-007
(Filed September 4, 1987)

ORIGINAL

O P I N I O N

Summary of Decision

This decision grants Southwest Gas Corporation (Southwest) the authority requested in the application.

Southwest requests authority, under Public Utilities (PU) Code Sections 818 through 830 and 851, for the following:

1. To issue and sell, either through negotiated private placements or negotiated public offerings, up to \$75,000,000 aggregate principal amount of Southwest's debentures and unsecured notes (to be collectively referred to as Debt Securities), in one or more series and under one or more indentures or supplements thereto, on or before September 30, 1988, and
2. To issue the above series under and in accordance with the provisions of the Indenture dated August 1, 1986 between Southwest and Security Pacific National Bank, as Trustee, or a supplemental indenture.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 11, 1987. No protests have been received.

Southwest, a California corporation, distributes and sells natural gas in portions of San Bernardino and Placer Counties.

Based on Southwest's Statement of Income for the 12 months ended June 30, 1987, Southwest reported it generated total operating revenues of \$434,341,390 and net income of \$32,963,668 shown as part of Exhibit A attached to the application. Southwest reports that in calendar year 1986, it generated total operating revenues of \$450,508,622 and net income of \$23,734,186 and that \$34,802,194 or 7.7% of its revenues were derived from operations in California.

Also shown as part of Exhibit A is Southwest's Balance Sheet as of June 30, 1987 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$574,241,566
Other Property and Investments	165,536,609
Current Assets	62,352,443
Deferred Debits	<u>37,037,876</u>
Total	\$839,168,494
 <u>Liabilities and Equity</u>	
Common Equity	\$274,317,539
Preferred/Preference Stock	26,400,000
Long-Term Debt	347,005,561
Current and Accrued Liabilities	108,285,024
Deferred Credits	<u>83,160,370</u>
Total	\$839,168,494

Method of Issuance and Sale of Southwest's New Debt Securities

The application states that Southwest proposes to issue and sell up to \$75,000,000 aggregate principal amount of its new Debt Securities as follows:

1. In the form of a new series of debentures to be issued under and in accordance with the provisions of the Indenture dated August 1, 1986 between Southwest and Security Pacific National Bank, as Trustee, or
2. In the form of a new series of unsecured notes to be issued under and in accordance with the provisions of a new indenture to be dated upon issuance of the new series of unsecured notes.

Southwest proposes to sell the new Debt Securities either by means of negotiated private placements with institutional investors or by negotiated public offerings through underwriters, depending upon prevailing circumstances which will dictate where the most advantageous terms and cost of money can be obtained. Southwest will negotiate with different investment banking firms to ascertain where the best terms and the lowest cost of money can be obtained and will inform the Commission of its decision and the terms and conditions of the sale. Southwest believes that it can negotiate and execute an agreement and sell, or obtain, binding commitments for the issuance of its new Debt Securities upon short notice and on the most advantageous terms available once it has obtained the authority to do so from the Commission.

Southwest will negotiate and pay an underwriting commission, or a placement fee, equal to a certain percentage of the principal amount of the new Debt Securities. The fee will be specified in the purchase or underwriting agreement. A copy of each agreement executed by Southwest will be filed with the Commission promptly after its execution.

Exemption from Competitive Bidding

By letter dated September 18, 1987, to the Commission, Southwest states that the application is intentionally silent on the issue of competitive bidding due to the general exemption granted in Commission Resolution F-616 dated October 1, 1986. In reference to Ordering Paragraph 6, in regard to the Competitive Bidding Rule, the resolution states, "The rule is only applicable to utilities with bond ratings of "A" or higher". Southwest is rated Baa-3 by Moodys and BBB by Standard and Poors. Southwest states that although it is exempt from the Commission's Competitive Bidding Rule, it will exercise its option to competitively bid, or privately place, any new long-term debt issues in such a way as to minimize overall financing and placement costs.

Use of Proceeds

Southwest states in its application that it has a continuing need for new capital in order to operate its utility business in the public interest. During calendar years 1987 through 1989, Southwest anticipates construction expenditures to be about \$295,000,000. Internally generated funds will provide

about \$140,000,000. External funds will be required in the amount of about \$155,000,000. Southwest proposes to use the proceeds from the sale of the new Debt Securities to finance, in part, these expenditures.

Southwest proposes to extend the maturity dates of its currently existing \$50,000,000 Eurodollar Credit Agreement (Credit Agreement) which provides seven consecutive maturity dates payable in equal amounts on July 11 and January 11, commencing on July 11, 1988 and terminating on July 11, 1991. Southwest proposes to renegotiate and extend the final maturity date by three years to July 11, 1994. This financing was approved by Commission Decision (D.)84-07-010 dated July 5, 1984 in Application (A.)84-03-091 as amended and extended by D.85-06-038 dated June 5, 1985 and D.87-10-070 dated October 28, 1987.

Capitalization Ratios

Southwest's capital ratios reported as of June 30, 1987 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>June 30, 1987</u>	<u>Pro Forma</u>
Long-Term Debt	53.5%	56.4%
Preferred and Preference Stock	4.1	6.3
Common Equity	<u>42.4</u>	<u>37.3</u>
Total	100.0%	100.0%

1. The proposed issuance and sale of up to \$75,000,000 of Southwest's Debt Securities;

2. The receipt of \$10,000,000 of proceeds held in trust from the 1985 Clark County (Nevada) Industrial Bond Issue in 1985 (authorized by D.85-05-010 dated May 1, 1985 in A.85-02-015);
3. The issuance and sale to Arizona Public Service in 1987 Southwest's Second Preference Stock, \$100 par value, in the amount of \$22,000,000 in net proceeds (authorized by D.85-05-010 dated May 1, 1985 in A.85-02-015); and
4. The proposed issuance and sale of 500,000 shares of Southwest's Common Stock, \$1 par value, through its Customer Stock Purchase Plan, its Employees' Investment Plan and its Dividend Reinvestment and Stock Purchase Plan for the assumed net proceeds of \$11,250,000 (authorized by D.86-05-060 dated May 28, 1986 in A.86-04-019).

Construction Budgets

Southwest is engaged in an extensive construction program and estimates that expenditures required for its construction program during calendar years 1987, 1988 and 1989 will be about \$135,000,000, \$90,000,000 and \$70,000,000, respectively, totaling \$295,000,000 and summarized as follows:

	<u>1987</u>	<u>1988</u> (In Thousands)	<u>1989</u>
ABS (Plastic Pipe) Replacement Project Expenditures	\$ 45,000	\$25,000	\$15,000
Other Construction Expenditures	<u>90,000</u>	<u>65,000</u>	<u>55,000</u>
Total	\$135,000	\$90,000	\$70,000

The Commission's Evaluation and Compliance Division (E&C Division) has reviewed Southwest's construction budgets for 1987, 1988 and 1989 and finds that the sale of Southwest's Debt Securities is necessary to fund the planned construction. The

E&C 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.

Cash Requirements Forecasts

Southwest's cash requirements for 1987, 1988 and 1989 as of June 30, 1987 are as follows:

	<u>1987</u>	<u>1988</u> (In Thousands)	<u>1989</u>
Funds used or Required for Construction Expenditures:			
ABS (Plastic Pipe) Replace- ment Expenditures	\$ 45,000	\$25,000	\$15,000
Non-Project Construction	<u>90,000</u>	<u>65,000</u>	<u>55,000</u>
Subtotal	\$135,000	\$90,000	\$70,000
Less: Cash from Internal Sources	(<u>43,000</u>)	(<u>47,000</u>)	(<u>50,000</u>)
Additional Funds Required from External Sources	\$ 92,000	\$43,000	\$20,000

The E&C Division has analyzed Southwest's cash requirements forecasts shown attached to the application as Schedule I and III of the Supplemental Data and has concluded that internally generated funds will provide 31.85% or \$43,000,000 in 1987, 52.22% or \$47,000,000 in 1988 and 71.42% or \$50,000,000 in 1989. Southwest will need funds from external sources amounting to \$92,000,000 in 1987, \$43,000,000 in 1988 and \$20,000,000 in 1989. The E&C Division has concluded that the proposed sale of Southwest's Debt Securities, as requested in the application, is necessary to help meet Southwest's cash requirements.

Findings of Fact

1. Southwest, a California corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed sale of Southwest's Debt Securities would be for proper purposes.
3. Southwest needs 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 Debt Securities is reasonably required for the purposes specified in the application.
5. The issue(s) of the proposed Debt Securities is not required to be by competitive bidding.
6. The Commission does not, by this decision, determine that Southwest's construction budgets are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.
7. There is no known opposition to this proceeding and there is 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.

The proposed issue, or issues, of Southwest's Debt Securities is for lawful purposes and the money, property or labor to be obtained therefrom is required for the purposes

stated in the application. Proceeds from the issue, or issues, of Southwest's Debt Securities may not be charged to operating expenses or income.

The following order should be effective on the date of signature to enable Southwest to issue its Debt Securities expeditiously. Southwest has paid the \$6,775 fee set by PU Code Section 1904(b) and 1904.2.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest) may, on or before September 30, 1988, issue and sell one or more issues of its Debt Securities in the form of debentures or unsecured notes in the aggregate principal amount of up to \$75,000,000, at any time or from time to time in one or more financings by means of competitive bidding, negotiated public offerings and/or negotiated private placements under terms and conditions set forth in the application.

Southwest's Debt Securities are exempt from the Commission's Competitive Bidding Rule set forth in Decision 38614 dated January 15, 1946 in Case 4761, as amended and as modified by Commission Resolution F-616 dated October 1, 1986 for sales effected either by means of negotiated public offerings or negotiated private placements. Southwest may also sell its Debt Securities by means of competitive bidding.

3. If Southwest's Debt Securities are sold by means of competitive bidding, Southwest shall file a written report with the Commission showing, for each bid received, the name of the bidder, the price, the interest rate and the cost of money to the company based on the price and interest rate.

4. If Southwest's Debt Securities are sold in a public offering, as soon as available, Southwest shall file, with the Commission's Evaluation and Compliance Division, three copies of its final prospectus, or other offering document, pertaining to the Debt Securities.

5. If Southwest's Debt Securities are sold by private placements or negotiated public offerings, within 30 days after their issuance and sale, Southwest shall file a report, with the Commission, setting forth the reason the company believes the resulting interest rate and cost of money were advantageous to the company and its ratepayers.

6. Southwest shall use the net proceeds from the sale of its Debt Securities for the purposes set forth in the application.

7. The Commission does not, by this decision, determine that Southwest's proposed construction is necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate or rate base offset proceedings.

8. Southwest may execute and deliver, indentures consistent with the terms and conditions set forth in the application.

9. Southwest shall file the reports required by General Order Series 24.

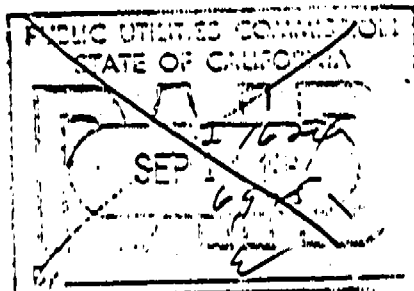
10. Southwest has paid the \$6,775 fee set by Public Utilities Code Sections 1904(b) and 1904.2.

11. The application is granted as set forth above.

This order is effective today.

Dated NOV 13 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

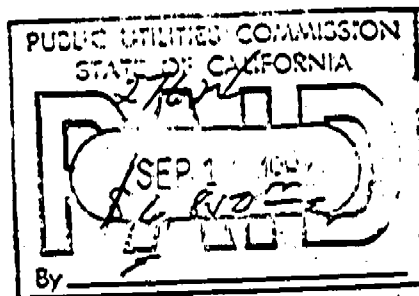


*Erwin
11-23-87*

Commissioner Donald Viel, being necessarily absent, did not participate.

PP

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



NOTE:

11/23/87

*connected by
Sean Munoz - re-mailed
Joni Salter*

[Signature]
Victor Weisser, Executive Director

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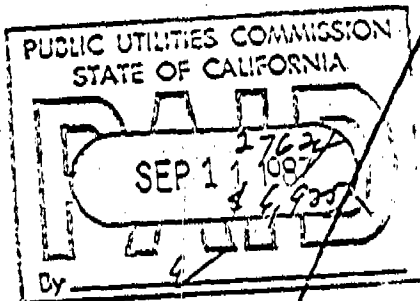
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Dated NOV 13 1987, at San Francisco, California.

STANLEY W. HULETT
President
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



Commissioner Donald Viel, being necessarily absent, did not participate.

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

Victor Weisser, Executive Director