CACD/KLH CA-5

Decision 88 12 009 DEC 9 1988

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 $100,000,000 Aggregate Principal Amount of New Long-Term Debt. (U 905 G)	Application 88-09-015 (Filed September 8, 1988)

ORIGINAL

O P I N I O N

Summary of Decision

The 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 up to $100,000,000 aggregate principal amount of debentures and/or unsecured notes (to be collectively referred to as Debt Securities), in one or more series and under one or more indentures or supplemental indentures, either by private placements with institutional investors or by public offerings through underwiters, on or prior to September 30, 1989, and

2. To issue the above series 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 26, 1988. No protests have been received.

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

Counties. It also transmits, sells, and distributes natural gas in portions of the States of Nevada and Arizona.

For the 12 months ended June 30, 1988, Southwest reports in its Statement of Income attached to its application as part of Exhibit A that it generated total operating revenues of $515,961,347 and net income of $43,611,173. Southwest reported in its Annual Report to the Commission that in calendar year 1987 it generated total operating revenues of $468,583,980 of which $37,699,445 or 8.1% was generated in California. It also earned net income of $42,549,000 in 1987.

Also shown as part of Exhibit A is Southwest's Balance Sheet as of June 30, 1988 summarized as follows:

Assets	Amount
Net Utility Plant	$654,050,298
Other Property and Investments	191,665,154
Current and Accrued Assets	72,532,231
Deferred Debits	37,797,311
Total	$956,044,994
Liabilities and Equity	
Common Equity	$301,654,798
Preferred/Preference Stock	41,600,000
Long-Term Debt	373,111,104
Current and Accrued Liabilities	139,882,108
Deferred Credits	99,796,984
Total	$956,044,994

Proposed Debt Securities and Method of Sale

The application states that Southwest proposes to issue and sell up to $100,000,000 aggregate principal amount of its 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 issue and sell its new Debt Securities, either by 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 and will inform the Commission Advisory and Compliance Division (CACD) of its decision and the terms and conditions of the sale.

The application states that Southwest believes that it can negotiate and execute a sales agreement and will negotiate binding commitments for the issuance and sale of the new Debt Securities upon short notice and on the most advantageous terms available once it has obtained authority to do so from the Commission.

Southwest will negotiate and pay an underwiting 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 CACD promptly after its execution.

Exemption from Competitive Bidding

By letter dated September 29, 1988 to the CACD, 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 2, 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 Competitive Bidding Rule, it will exercise its option to bid competitively, or privately place, any new long-term debt issues in such a way as to minimize overall financing and placement costs.

If Southwest chooses to issue and sell the proposed Debt Securities by means of negotiated public offerings or by private placements, the Commission places Southwest on notice that in its next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in disallowance of interest expense if it is determined that the cost of money incurred was not prudent. We will require Southwest to provide us with a showing of why it believes that the resulting interest rate and cost of money were advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of its Debt Securities.

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 1988 through 1990, Southwest anticipates construction expenditures of about $250,000,000. Internal funds will provide approximately $145,000,000 of this requirement. Southwest will require about $105,000,000 from external sources to help fund its construction. Southwest proposes to use the proceeds from the sale of the new long-term debt to finance, in part, these expenditures.

Capital Ratios

Southwest's capital ratios as of June 30, 1988 are shown below as recorded and as adjusted to give pro forma effect to the transaction that follows:

	June 30, 1988	Pro Forma
Long-Term Debt	52.1%	60.1%
Preferred/Preference Stock	5.8	4.6
Common Equity	42.1	35.3
Total	100.0%	100.0%

1. The proposed issuance of new Debt Securities in the aggregate principal amount of $100,000,000 subject of this decision;

2. The August 1988 issuance of $25,000,000 of 10% Debentures, Series E, due 2013 (authorized by Decision (D.)87-11-008 dated November 13, 1987 in Application (A.)87-09-007);

3. The August 1988 issuance of $50,000,000 of Clark County, Nevada, Variable Rate Demand Industrial Development Revenue Bonds (Southwest Gas Corporation), Series 1988 (authorized by D.87-11-006 dated November 13, 1987 in A.87-09-007); and

4. The issuance and sale of 1,000,000 shares of Common Stock to Southwest's Employees Investment Plan and Dividend Reinvestment and Stock Purchase Plan subject of A.88-09-043 filed September 22, 1988 and currently before the Commission for decision.

Budgeted Construction

Southwest is engaged in an extensive construction program and estimates that the expenditures required for its construction program during calendar years 1988, 1989, and 1990 will approximate $250,000,000 and are summarized as follows:

Purposes	1988	1989 (in Thousands)	1990
ABS (Plastic Pipe) Replacement Program	$ 25,000	$15,000	$15,000
Other Construction Expenditures	75,000	60,000	60,000
Total	$100,000	$75,000	$75,000

The CACD has reviewed Southwest's construction budgets for 1988, 1989, and 1990 and finds that the sale of its Debt Securities is necessary to help fund the planned construction. The CACD 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 base offset proceedings.

Cash Requirements Forecasts

Southwest estimates its construction program during calendar years 1988, 1989 and 1990 will be about $100,000,000, $75,000,000 and $75,000,000, respectively, totaling $250,000,000 and summarized as follows:

	1988	1989 (In Thousands)	1990
Funds Used or Required for Construction Expenditures:			
ABS (Plastic Pipe) Replacement Programs	$ 25,000	$15,000	$15,000
Other Construction Projects	75,000	60,000	60,000
Subtotal	$100,000	$75,000	$75,000
Less: Cash from Internal Sources	45,000	45,000	55,000
Additional Funds Required from External Sources	$ 55,000	$30,000	$20,000

The CACD has analyzed Southwest's cash requirements forecasts shown attached to the application as Schedules I & III of the Supplemental Data as part of Exhibit B and has concluded that internally generated funds will provide 40.0% or $45,000,000 in

1988, 60.0% or $45,000,000 in 1989 and 73.3% or $55,000,000 in 1990. Southwest will need funds from external sources amounting to $55,000,000 in 1988, $30,000,000 in 1989 and $20,000,000 in 1990. The CACD has concluded that the proposed sale of Southwest's Debt Securities, as requested in the application, is necessary to help meet Southwest's forecasted 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 the proceeding 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.

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 and payment of the fee set by PU Code Sections 1904(b) and 1904.2 to enable Southwest to issue its Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest) may, on or before September 30, 1989, issue and sell one or more series of its debentures, unsecured notes, or promissory notes (Debt Securities), in the aggregate principal amount of up to $100,000,000, 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.

2. 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 placement. 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 Advisory and Compliance Division, three copies of its final prospectus, or other offering documents, 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. This application is granted as set forth above.

The authority granted by this order will become effective when Southwest pays $9100, the fee set by Public Utilities Code Sections 1904(b) and 1904.2. In all other respects, this order is effective today.

Dated DEC 9 1988, at San Francisco, California.

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

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By

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

Victor Weisser, Executive Director