

Decision 88 12 010 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 to exceed in the)
 aggregate 1,000,000 shares of its common)
 stock to its Employees' Investment Plan)
 and Dividend Reinvestment and Stock)
 Purchase Plan.)
 (U 905 G))

Application 88-09-043
(Filed September 22, 1988)

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 816 through 830, to issue and sell up to 1,000,000 shares of its Common Stock, \$1 par value, through its Employees' Investment Plan (EIP) and its Dividend Reinvestment and Stock Purchase Plan (DRSPP) (to be collectively referred to as the Plans).

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:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$654,050,298
Other Property and Investments	191,665,154
Current and Accrued Assets	72,532,231
Deferred Debits	<u>37,797,311</u>
Total	\$956,044,994
 <u>Liabilities and Equity</u>	
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	<u>99,796,984</u>
Total	\$956,044,994

Southwest proposes to issue and sell through its Plans up to 1,000,000 shares of Southwest's Common Stock, \$1 par value, estimated in its application to produce net proceeds in excess of \$21,125,000 at an estimated price of \$21.125 per share ^{1/}.

These Plans are described as follows:

^{1/} On October 17, 1988, Southwest's stock closed at a price of \$21-1/8 as reported in the Wall Street Journal.

1. The EIP, initially established in 1965, is a payroll deduction plan which qualifies under Internal Revenue Code Section 401(k). This Plan permits employees to invest in one of four investment plans--one of which is the common stock of Southwest. Eligible employees may elect to contribute from two to 10% of their annual salary to the Plan. Southwest contributes from one to three percent of the participating employee's annual salary at the rate of \$1 for each \$2 contributed by the participating employee.
2. The DRSP, established in 1974, provides holders of record and the customers and employees of Southwest an opportunity to purchase new shares of Southwest's common stock and to reinvest cash dividends 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 new common stock by Southwest to the participants in its respective Plans. The price of the common stock issued in connection with 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.

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 transactions that follow:

	<u>June 30, 1988</u>	<u>Pro Forma</u>
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 sale of 1,000,000 shares of common stock to Southwest's Employees Investment Plan and Dividend Reinvestment and Stock Purchase Plan subject of the current application for decision;
2. The issuance of \$100,000,000 of new long-term debt as proposed in Application (A.)88-09-015 filed September 8, 1988 presently before the Commission for decision;
3. The August 1988 issuance of the \$25,000,000 10% Debentures, Series E, due in 2013, (authorized by Decision (D.)87-11-006 dated November 13, 1987 in A.87-09-007); and
4. 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).

Use of Proceeds

Southwest proposes to use the proceeds from the periodic sales of the common stock to pay for additional capital improvements to Southwest's facilities.

Construction Budgets

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:

<u>Purposes</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
	(In Thousands)		
ABS (Plastic Pipe) Replacement Project Expenditures	\$ 25,000	\$15,000	\$15,000
Other Construction Expenditures	<u>75,000</u>	<u>60,000</u>	<u>60,000</u>
Total	\$100,000	\$75,000	\$75,000

The Commission Advisory and Compliance Division (CACD) has reviewed Southwest's construction budgets for 1988, 1989, and 1990 and finds that the sale of its common stock 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's cash requirements for 1987, 1988, and 1990 as of June 30, 1988 are as follows:

	<u>1988</u>	<u>1989</u> (In Thousands)	<u>1990</u>
Funds used or Required for Construction Expenditures:			
ABS (Plastic Pipe) Replace- ment Expenditures	\$ 25,000	\$15,000	\$15,000
Other Construction Expenditures	<u>75,000</u>	<u>60,000</u>	<u>60,000</u>
Subtotal	\$100,000	\$75,000	\$75,000
Less: Cash from Internal Sources	<u>45,000</u>	<u>45,000</u>	<u>55,000</u>
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 Schedule I and III of the Supplemental Data shown as part of Exhibit C and has concluded that internally generated funds will provide about 45% or \$45,000,000 in 1988; 60% or \$45,000,000 in 1989; and 73.3% \$55,000,000 in 1990. Southwest will need funds from external sources amounting to about \$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 common stock, 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 issuance of common stock under the Plans 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 Southwest's common stock is reasonably required for the purposes specified in the application.

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.

The proposed security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the security issue may not be charged to operating expense or income.

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 ratemaking 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 its common stock under its Plans expeditiously.

ORDER

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest), on or after the effective date of this order, may issue and sell up to 1,000,000 shares of its Common Stock, \$1 par value, through its Employees' Investment Plan and its Dividend Reinvestment and Stock Purchase Plan in the manner set forth in the application to produce net proceeds of about \$21,125,000.

2. Southwest shall apply the net proceeds from the sale of its common stock to the purposes set forth in the application.

3. As soon as available, Southwest shall file, with the Commission, three copies of its final prospectus pertaining to the sales of the common stock authorized by this order.

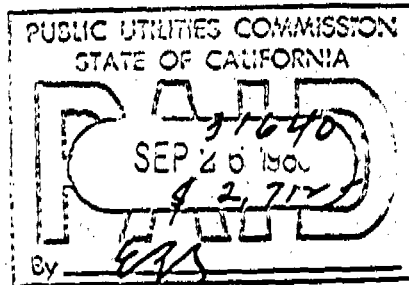
4. Southwest shall file the reports required by General Order Series 24.

5. The application is granted as set forth above.

The authority granted by this order to issue common stock will become effective when Southwest pays \$2,712, the fee set by Public Utilities Code Sections 1904.1 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 B. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



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

[Signature]
Victor Weisser, Executive Director