

CACD/BVC

Decision 90-06-057

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 )  
1,800,000 Shares of its Common )  
Stock to its Employees' Investment )  
Plan (EIP) and Dividend )  
Reinvestment and Stock Purchase )  
Plan (DRSPP) and the Employees' )  
401(K) Plan of PriMerit Bank )  
(PBEIP) (U 905 G) )

ORIGINAL

Application 90-05-030  
(Filed May 17, 1990)

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 Sections 816 and 830 of the California Public Utilities (PU) Code, to issue and sell not to exceed in the aggregate 1,800,000 shares of Southwest's \$1 par value Common Stock (Common Stock) to its Employees' Investment Plan (EIP) and Dividend Reinvestment and Stock Purchase Plan (DRSPP) and the Employees' 401(K) Plan of PriMerit Bank (PBEIP) (to be collectively referred to as the Plans).

Notice of the filing appeared on the Commission's Daily Calendar of May 22, 1990. No protests have been received.

Southwest is a corporation organized and existing under the laws of the State of California, and is engaged in the business of distributing and selling natural gas in certain portions of San Bernardino County and Placer County, California, as a public utility subject to the jurisdiction of the Commission. Southwest is also engaged in the intrastate transmission, sale, and distribution of natural gas as a public utility in certain portions of the States of Nevada and Arizona and is a "natural gas company," within the meaning of the Natural Gas Act, subject to the jurisdiction of the Federal Energy

Regulatory Commission with respect to interstate transmission facilities and sales of natural gas for resale on its Northern Nevada system.

For the 12 months ended March 31, 1990, Southwest reported operating revenues of \$508,305,965, and net operating income of \$66,175,055 for the 12 months ended March 31, 1990 as shown in Exhibit A to the application.

Also shown as part of Exhibit A is Southwest's Balance Sheet as of March 31, 1990 which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 782,658,101
Other Property & Investments	187,195,835
Current & Accrued Assets	109,161,907
Deferred Debits	<u>34,128,860</u>
Total	\$1,113,144,703

<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$ 350,903,483
Preferred/Preference Stock	37,090,000
Long Term Debt	405,789,818
Current and Accrued Liabilities	200,177,672
Deferred Credits	<u>119,183,730</u>
Total	\$1,113,144,703

Equity Financing

Southwest states that it intends to prepare a registration statement to be filed with the SEC covering the proposed issuance of up to 2,000,000 shares of its Common Stock to its Plans. The registration will include the 1,800,000 shares referred to in the application and 200,000 of the 1,000,000 shares previously approved by this Commission in Decision (D.) 88-12-010. Copies of the final prospectus to be filed with the SEC in connection with the Plans will be filed with the Commission when they become available.

Description of Plans and Manner of Issuance

Southwest seeks authority in the application to issue and sell to the Plans up to 1,800,000 shares of its Common Stock authorized by its Articles of Incorporation, but as of the date of the application unissued. Southwest would issue and sell authorized, but unissued shares of the Common Stock to the Plans at the current market price per share of the Common Stock at the time of the sale (Original Issue Method).

The Original Issue Method provides a low-cost means of increasing common equity, because there are no associated underwriting fees.

The EIP is a payroll deduction plan which permits eligible employees of Southwest to invest payroll savings in one of four investment choices -- one of which is the Common Stock of Southwest. Eligible employees may elect to contribute from 2 to 10 percent of their salary to the Plan. Southwest contributes (matching contribution) \$1 for every \$2 contributed by the participating employee, up to a maximum of 3 percent of the employee's annual salary. All contributions are invested in Southwest's Common Stock.

The PBEIP is a payroll deduction plan which permits eligible PriMerit Bank employees (PriMerit Bank, a federal savings bank, is a wholly owned subsidiary of Southwest) to invest from 1 to 10 percent of their salary in one of three investment alternatives. PriMerit Bank contributes (matching contribution) \$1 for every \$2 contributed by its employees, with such contributions being invested in Southwest's Common Stock. PriMerit is not required to make matching contributions for employee contributions in excess of 6 percent of their annual salary.

The DRSPP provides holders of record, customers, and employees 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 any payment of brokerage commissions or service charges.

Construction Budget

Southwest is engaged in an extensive construction program and estimates that the expenditures required for its construction program during calendar years 1990, 1991 and 1992 will approximate \$300 million, summarized as follows:

<u>Item</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Replace. Programs	\$ 10,000,000	\$ 10,000,000	\$10,000,000
Non-Project Construction	<u>95,000,000</u>	<u>90,000,000</u>	<u>85,000,000</u>
Total	\$105,000,000	\$100,000,000	\$95,000,000

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Southwest's construction program. The CACD concludes that the proposed financing is necessary for Southwest's construction program; however, Southwest is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

Southwest's capitalization ratios at March 31, 1990, are shown below as recorded and adjusted to give *pro forma* effect to the transactions that follow:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u> (Thousands of Dollars)	<u>Amount</u>	<u>Percentage</u>
Common Equity	\$350,903	41.8%	\$381,953	42.5%
Pref. Equity	37,090	4.4	37,090	4.1
Long-Term Debt	405,790	48.3	480,790	53.4
Short-Term Debt	<u>46,000</u>	<u>5.5</u>	<u>-0-</u>	<u>0.0</u>
Totals	\$839,783	100.0%	\$899,833	100.0%

1. The sale of 1,800,000 shares of Common Stock to the Plans with net proceeds of approximately \$17.25 per share (the subject of this application);
2. The issuance of \$75,000,000 of new intermediate-term debt as authorized by D.90-03-079 in A.84-03-091 and A.88-09-015;
3. The use of \$46,000,000 of intermediate-term debt described above to retire short-term debt outstanding as of March 31, 1990.

Southwest is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

Southwest's cash requirements forecast for 1990, 1991, and 1992 is summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
	(Thousands of Dollars)		
Funds Used or Required for Constr. Expendit.	\$105,000	\$100,000	\$ 95,000
Maturities of Long-Term Debt (Bonds, Notes, Debentures, etc.)	5,000	5,000	5,000
Maturities of Pref. & Preference Stock 9.5% Cumulat. Pref. Stock	800	800	800
Second Preference Stock	6,458	6,458	6,458
Short-Term Debt at Beginning of Year	<u>54,000</u>	<u>30,000</u>	<u>55,000</u>
Total	\$171,258	\$142,258	\$162,258
Less: Estimated Cash Available from Internal Sources	<u>45,000</u>	<u>35,000</u>	<u>70,000</u>
Additional New Funds Required from Outside Sources	\$126,258	\$107,258	\$ 92,258

The CACD has analyzed Southwest's cash requirements forecasts for 1990, 1991 and 1992. The CACD has concluded that internally generated funds will provide only 26.3% or \$45,000,000 in 1990; 24.6% or \$35,000,000 in 1991; and 43.1% or \$70,000,000 in 1992. Southwest will need funds from external sources amounting to \$126,258,000 in 1990, \$107,258,000 in 1991, and \$92,258,000 in 1992. The CACD concludes that the proposed issuance of Southwest's Debt Securities is necessary to help meet forecasted cash requirements which includes capital expenditures. The CACD has reviewed the application and has concluded that the proposed issuance of the Debt Securities is reasonable and that the authority should be granted.

Use of Proceeds

Southwest states that it has a continuing need for new capital in order to operate its utility business in the public interest. During calendar years 1990 through 1992, Southwest anticipates construction expenditures of approximately \$300 million. External funds of approximately \$150 million will be required to finance these outlays.

Southwest believes it is prudent to maintain a strong and balanced capital structure. In order to do this, Southwest deems it advisable, if market conditions are satisfactory, to sell common equity periodically to supply a major increment of the capital needed to finance its construction projects.

Southwest proposes to use the proceeds from the periodic sales of the Common Stock to repay short-term debt related to capital improvements and to pay for additional capital improvements to Southwest's facilities.

Southwest estimates that the sale of 1,800,000 additional shares of Common Stock will result in net proceeds to Southwest approximating \$31,050,000, based on the current price of Southwest's Common Stock on the New York Stock Exchange (NYSE). No significant issuance expenses and no underwriting commissions are applicable, because such periodic sales will be direct sales of Common Stock by Southwest to the participants in the respective Plans, either of record and beneficially, as in the case of the DRSP, or of record to a trustee with beneficial interests allocated to the participants, as in the case of the EIP and PBEIP. The price of the Common Stock to the Plans (and the proceeds to Southwest) will depend upon the NYSE prices of the Common Stock and the pricing formulas established in the Plans.

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 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 are required for these purposes. Proceeds from the security issue may not be charged to operating expenses 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 shall be effective on the date of signature and payment of the fee set by PU Code §1904(b) and §1094.1 to enable Southwest to proceed expeditiously with the sale of its common stock under its Plans.

ORDER

IT IS ORDERED that:

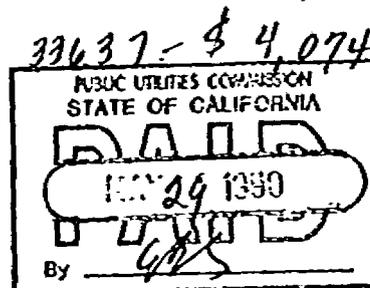
1. Southwest Gas Corporation (Southwest), on or after the effective date of this order, may issue and sell up to 1,800,000 shares of its Common Stock, \$1 par value, through its Employees' Investment Plan, its Dividend Reinvestment and Stock Purchase Plan, and the Employees' 401(K) Plan of PriMerit Bank in the manner set forth in the application.
2. Southwest shall apply the net proceeds from the sale of its common stock to the purposes set forth in the application.
3. Southwest shall file with the CACD three copies of its final prospectus pertaining to the sales of the common stock authorized by this Order, within 15 days of execution.
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 a fee of \$4,074 set by PU Code §1904(b) and §1904.1. In all other respects, this order is effective today.

Dated June 20, 1990, at San Francisco, California.

FREDERICK R. DUDA  
STANLEY W. HULETT  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
Commissioners

President G. Mitchell Wilk,  
being necessarily absent, did  
not participate.



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

*Neal J. Shulman*  
NEAL J. SHULMAN, Executive Director  
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