

Decision 82 06 061

JUN 15-1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SOUTHWEST GAS CORPORATION for)
Authority to Sell and Simul-)
taneously Lease Back One or Both)
of its Corporate Headquarters)
Buildings and/or 13 Acres of Real)
Property.)

Application 60979
(Filed October 13, 1981)

O P I N I O N

Southwest Gas Corporation (Southwest) requests an order from the Commission which will allow the utility under Public Utility (PU) Code Section 851 to sell one or both of its headquarters buildings and/or approximately 13 acres of real property on which these buildings are situated in Las Vegas, Nevada, and to simultaneously lease back these same buildings.

Southwest also filed Application (A.) 82-01-18 on January 11, 1982 for authority to sell and lease back its Tucson, Arizona Operations Center. That application is being reviewed by the Revenue Requirements Division.

Notice of the filing of the application appeared in the Commission's Daily Calendar of October 14, 1981. No protests have been received.

Summary of Decision

This decision grants Southwest the authority to simultaneously sell and lease back its corporate headquarters buildings and 13 acres of real property all of which are located in Las Vegas, Nevada.

Southwest, a California corporation, engages in the business of distributing and selling natural gas in portions of San Bernardino and Placer Counties in California. It also transmits, sells, and distributes natural gas interstate in portions of the States of Nevada and Arizona. It is 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.

Southwest's income statement for the 12 months ended December 31, 1981 shows that it generated operating revenues of \$432,391,326 and net income of \$9,571,232. Southwest derived its operating revenues from the various states as follows:

<u>State</u>	<u>Percentage</u>
California	6.8%
Arizona	28.5
Nevada	<u>64.7</u>
Total	100.0%

The company's balance sheet as of December 31, 1981, according to its annual report is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$284,106,874
Other Property and Investments	5,059,794
Current Assets	66,338,671
Deferred Debits	<u>6,251,520</u>
Total	\$361,756,859
 <u>Liabilities and Capital</u>	
Common Equity	\$ 84,928,539
Preferred and Preference Stock	22,460,000
Long-Term Debt	130,213,948
Current and Accrued Liabilities	112,368,541
Deferred Credits	<u>11,785,831</u>
Total	\$361,756,859

Southwest is engaged in an extensive construction program and estimates that the gross expenditures required for its construction program during 1982 and 1983 will approximate \$151,000,000. Supplemental data on the utility's construction program were supplied to the Commission by its attorney in a letter dated April 21, 1982 showing estimates as follows:

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	<u>1982</u>	<u>1983</u>
Total budgeted construction	\$75,019,000	\$76,100,000
Less: Internally generated funds	<u>17,500,000</u>	<u>22,500,000</u>
External Funds Required	\$57,519,000	\$53,600,000
Percentage of External Funds Required	76.7%	70.4%

Southwest's capital ratios as of December 31, 1981, recorded and as adjusted to give effect to the proposed sale and leaseback of its Las Vegas Corporate Headquarters and real property on which it is located, and the sale and leaseback of its Tucson, Arizona Operations Center and real property (A.82-01-18), are as follows:

	<u>December 31, 1981</u>	<u>Pro Forma</u>
Long-Term Debt	49.2%	51.7%
Short-Term Debt	<u>10.9</u>	<u>6.0</u>
Total Debt	60.1%	57.7%
Preferred and Preference Stock	8.6	9.2
Common Stock Equity	<u>31.3</u>	<u>33.1</u>
Total	100.0%	100.0%

The application indicates that Southwest has a continuing need for new capital in order to operate its utility business in the public interest. Southwest believes that the sale and simultaneous leaseback of its corporate headquarters is a prudent means

by which to raise new capital, especially in light of the high financing costs and other disadvantages associated with either a debt or equity issuance at the present time, a period where capital costs are at very high levels.

Southwest proposes to use the proceeds from the sales of its corporate headquarters properties to repay short-term borrowings as may be incurred for capital improvements prior to the proposed sale.

Southwest, by the proposed sale and leaseback transaction, would sell to a limited partnership to be formed and controlled by Blyth Eastman Paine Webber, Inc. (Lessor) its existing corporate headquarters for approximately \$15,750,000, an amount representing the current fair market value as determined by an independent appraisal. Exhibit C of the application indicates that the net book values of the corporate headquarters properties is about \$10,226,000. The lease terms would be for a primary term of 15 years with 6 renewal options of 5 years each. Title to the corporate headquarters properties under the lease would be held by the Lessor. The proposed lease contains an option to repurchase the corporate headquarters properties at the end of the primary lease term or any of the renewal lease terms at the then fair market value.

In support of its application, Southwest provided the Commission's Revenue Requirements Division with a comparison of its ownership costs with its estimated lease costs. The comparison indicates that the costs of ownership would be about \$31,648,000 and the lease costs would be about \$24,681,000, a benefit to Southwest of about \$7,000,000, over the primary lease term of 15 years.

Southwest has informed the Commission's Revenue Requirements Division, by letter dated June 1, 1982, that the gains realized from the proposed sale and leaseback transaction will be amortized as a credit against the cost of the lease.

The Commission's Revenue Requirements Division has reviewed the application, the company's 1982 and 1983 construction program, and the company's comparison of the ownership and lease costs of the corporate headquarters properties. The Division concludes that Southwest's request is reasonable and not adverse to the public interest. The Division recommends that Southwest be granted the authority to enter into the proposed sale and leaseback transaction as presented in the application. The Division reserves the right, however, to reconsider the reasonableness of the sale and leaseback transaction and any specific construction expenditure in future rate proceedings.

Southwest is put on notice that the proposed sale and leaseback transaction shall be recorded on its books of account in accordance with the system of accounts prescribed for gas utilities. We will also require Southwest to file with us the accounting entries to record the proposed transaction. We will require the entries within a reasonable time after consummation of the proposed transaction.

We also put Southwest on notice that the gains realized from the proposed transaction should be amortized as a reduction to the cost of the lease.

Findings of Fact

1. Southwest, a California corporation, operates under the jurisdiction of this Commission.
2. Southwest has need for external funds for the purposes set forth in the application.
3. The proposed sale and simultaneous leaseback of its Las Vegas Headquarters and the adjoining real property under the circumstances outlined in the application and under PU Code Section 851 are reasonable and not adverse to the public interest.
4. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Commission has jurisdiction over the sale of utility property described in the sale and leaseback transaction.
3. The application should be granted to the extent set forth in the order which follows.

This authorization is for the purpose of this proceeding only and is not to be construed as indicative of the amount of expenditures, if any, under the sale and leaseback transaction, which shall be approved as proper operating expenses in proceedings for the determination of just and reasonable rates.

Southwest requests this order be made effective when signed in order that it may execute its sale/lease agreement expeditiously.

O R D E R

It IS ORDERED that:

1. Southwest Gas Corporation (Southwest), on or after the effective date of this order, is authorized to sell one or both of its corporate headquarters buildings and/or approximately 13 acres of real property on which the buildings are situated, as specified in the application.

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

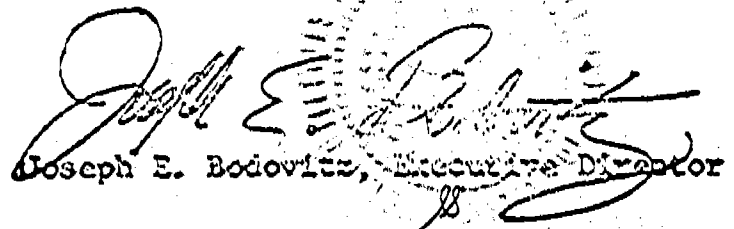
3. Within 90 days after consummation of the sale and leaseback authorized, Southwest shall file with the Commission, the accounting entries to record the proposed transaction. The entries shall include a description of the account, the account number, and the amount included in each account.

This order is effective today.

Dated JUN 15 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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


Joseph E. Bodovitz, Executive Director