RR/KLH/ARM/WPSC

ORIGINAL

Decision 82 11 060 NOV 17 1982

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 $20,000,000 Aggregate Principal Amount of New Long-Term Debt.

Application 82-09-25
(Filed September 16, 1982)

OPINION

Southwest Gas Corporation (Southwest) requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851, for the the following:

1. To issue, sell, and deliver either through negotiated private placement or negotiated public offering, up to $20,000,000 aggregate principal amount of Southwest's First Mortgage Bonds, Debentures, Unsecured Notes, and/or Promissory Notes, in one or more series, or to establish an Intermediate-Term Credit Facility (any or all to be collectively referred to as Debt Securities);

2. To execute and deliver one or more supplemental indentures in connection with each proposed new series of Debt Securities; and

3. To have each proposed series of Southwest's Debt Securities exempted from the Commission's competitive bidding requirements.

Summary of Decisions

This decision grants Southwest the authority requested in its application and also grants it the authority to issue its Debt Securities by competitive bidding.

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 17, 1982. 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.

In its Statement of Income for the 12 months ended June 30, 1982, Southwest reports it generated total operating revenues of $423,753,000 and net income of $11,740,987, shown as part of Exhibit A attached to the application. Southwest reports it derived 7.83% of its revenues from operations in California.

Also shown as part of Exhibit A is Southwest's Balance Sheet as of June 30, 1982 summarized as follows:

Assets	Amount
Net Utility Plant	$292,236,308
Other Property and Investments	5,532,392
Current and Accrued Assets	48,502,849
Deferred Debits	6,819,622
Total	$353,091,171
Liabilities and Equity	
Common Equity	$ 87,537,469
Preferred/Preference Stock	35,100,000
Long-Term Debt	102,424,154
Construction Trust Financing	40,000,999
Current and Accrued Liabilities	69,528,657
Deferred Credits	18,499,892
Total	$353,091,171

In this application, Southwest proposes to issue and sell up to $20,000,000 aggregate principal amount of new Debt Securities in one or more of the following forms:

1. First Mortgage Bonds (Bonds) to be issued under and in accordance with the provisions of an Indenture of Mortgage and Deed of Trust dated as of June 1, 1951 between Southwest and Bank of America National Trust and Savings Association and D.C. Easterday, Trustees (successors to Union Bank and Trust Co. of Los Angeles, Trustee) and amendatory and supplemental Indentures, and a proposed Eighteenth Supplemental Indenture to be dated upon issuance of the additional Bonds, the original indenture and all its supplements (collectively referred to as the Mortgage Indenture);

2. A new series of Debentures or 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 Debentures or Unsecured Notes;

3. A new series of Promissory Notes to be issued under and in accordance with the provisions of the Indenture dated April 26, 1976 between Southwest and Valley Bank of Nevada, as Trustee (Promissory Note Indenture), and a proposed First Supplemental Indenture to be dated upon issuance of the new series of Promissory Notes; or

4. In the form of an Intermediate-Term Credit Facility.

Southwest alleges a need to obtain a maximum of $20,000,000 of additional long-term debt financing in order (a) to repay short-term borrowings as may be incurred prior to the closing date and (b) to provide additional capital to fund ongoing construction.

Southwest proposes to issue and sell its additional Debt Securities either by negotiated private placement with institutional investors or by public offering through underwriters, depending upon prevailing circumstances which will dictate where the most advantageous terms and cost of money can be obtained. In the case of the Intermediate-Term Credit Facility, Southwest will solicit bids from numerous commercial banks for long-term lines-of-credit.

Applicant is negotiating with different investment banking firms to ascertain where the best terms and the lowest cost of money can be obtained. Southwest believes it can negotiate and execute an underwriting or purchase agreement and sell or obtain binding commitments for the purchase of the 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.

The application indicates that Southwest proposes to negotiate and pay an underwriting commission or a placement fee equal to a percentage of the principal amount of the new Debt Securities. This 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

Southwest requests an exemption for the sale of its new Debt Securities from the Commission's competitive bidding requirements set forth in Decision (D.) 38614, as amended by D.49941 and D.75556 in Case 4761.

In D.94984 dated July 2, 1980 for San Diego Gas & Electric Company in Application (A.) 59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from the competitive bidding rule.

In its letter dated October 21, 1982 to the Commission, Southwest sets forth reasons to justify its request to issue and sell Debt Securities exempt from the competitive bidding rule as follows:

1. Due to the size of the company, Southwest does not have the investor attraction associated with large and more diversified companies. Consequently, Southwest's bonds have a very small public market and limited institutional following. As a result, the use of a competitive bid to sell additional long-term debt would most likely be more costly than an offering

made on a negotiated basis since those bidding on Southwest's proposed bonds must take into account the additional risk inherent in an issue that is limitedly marketable.

2. Southwest's First Mortgage Bonds (its senior debt securities) are rated BBB by Standard & Poor's and Baa-3 by Moody's Investor Service. This quality rating severely limits the potential market for Southwest's securities. The relatively recent downgrading of Southwest's bonds by Moody's Investors Service has further hampered the ability of Southwest to sell its proposed Bonds and other forms of long-term debt. The primary avenue for marketing these securities is through private placements with institutional (insurance companies) investors. This market makes preoffering marketing efforts essential by the prospective underwriters. Investment bankers associated with the negotiating group in a negotiated underwriting are in a position to engage in these efforts, but members of a bidding group are not able and/or will not engage in them. These efforts, together with the greater flexibility in timing and terms, can result in a lower cost of money through a negotiated underwriting than would be obtained if the offering were made by means of competitive bidding.

3. The fact that Southwest might be authorized to enter into a sale of its long-term debt on a negotiated basis would not necessarily result in an offering at a higher cost than that obtainable through a competitive bid. In a negotiated transaction, Southwest negotiates with a number of agents before selecting any one in particular. In this manner, Southwest is able to obtain the best possible terms and conditions.

> 4. In seeking authority to issue its long-term debt by negotiated private placement, Southwest believes that the terms and conditions of a private placement sale can be tailored to meet the requirements of institutional investors in order to obtain a more favorable interest rate on the long-term debt than that available through a public offering.

Southwest believes that in order to serve the best interests of the company, its ratepayers, and its shareholders, it requires the greater flexibility in the method of sale of its new Debt Securities provided by a negotiated sale rather than that provided by competitive bidding.

The Commission's Revenue Requirements Division believes that the principles of the competitive bidding rule are valid under current economic conditions; however, because of Southwest's low bond rating (BBB) and its need for large amounts of capital, the Division recommends that an exemption from the competitive bidding rule be granted at this time.

In order to provide Southwest with greater financial flexibility, the Division also recommends that Southwest be granted the authority to issue the proposed Debt Securities by a competitive offering.

We are frankly uncertain whether strict adherence to the competitive bidding rule would prove beneficial in this instance. Consequently, for this application only, we will accept the recommendation of the Revenue Requirements Division. We will authorize Southwest to proceed on either a competitive bid, a private placement, or a negotiated public offering.

If Southwest chooses to issue and sell the proposed Debt Securities by means of a negotiated public offering or by a private placement, we place 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 the interest expense if it is determined that the cost of money incurred was not the most prudent. We will also require Southwest to provide us with a showing of why it believes that the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers. We will require this showing within a reasonable period of time after the issuance and sale of the proposed Debt Securities.

Southwest is engaged in an extensive construction program and estimates that the gross expenditures required for this construction program during 1982, 1983, and 1984 will approximate $177,200,000 as shown in Schedules VII and VIII attached to the application and summarized as follows:

Purpose	1982	1983	1984
	(000 omitted)		
LNG-Northern Nevada	$10,200	$ 0	$ 0
Maintenance-Northern Nevada	22,800	0	0
Pataya Project	0	9,300	29,500
Headquarters Building	900	0	0
Office Building-Tucson	0	4,000	0
Nonproject Construction	25,000	35,500	33,500
EII-Net Expenditures	2,500	2,000	2,000
Total	$61,400	$50,800	$65,000

Southwest's capital ratios reported as of June 30, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	June 30, 1982	Pro Forma
Long-Term Debt	35.5%	41.5%
Construction Trust Liability	13.8	13.5
Short-Term Debt	8.2	0
Total Debt	57.5	55.0
Preferred/Preference Stock	12.2	11.9
Common Equity	30.3	33.1
Total	100.0%	100.0%

1. The proposed issuance and sale of new Debt Securities estimated to produce net proceeds of $20,000,000;

2. The proposed issuance and sale of up to 1,000,000 shares of Southwest's Common Stock, $1 par value, at the assumed price of $10 per share, estimated to produce net proceeds of $10,000,000 (D.82-11-010 dated November 3, 1982 in A.82-09-26); and

3. The payment of $23,817,000 in short-term debt.

The Commission's Revenue Requirements Division has reviewed Southwest's 1982, 1983, and 1984 construction budget. The Division has no objection to the proposed sale of Southwest's Debt Securities but reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

The Revenue Requirements Division has analyzed Southwest's cash requirement forecast attached to the application as part of Exhibit B and has concluded that internally generated funds will provide only 28% of capital expenditures for 1982, 44% for 1983, and 35% for 1984. The Division has concluded that the proposed sale of Southwest's Debt Securities is necessary to help meet forecasted cash requirements.

Findings of Fact

1. Southwest, a California corporation, operates as a public utility under the jurisdiction of this Commission.

2. The proposed sale of Debt Securities is 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 sale of the proposed Debt Securities should not be required to be through competitive bidding.

6. 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 expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904.2 to enable Southwest to proceed with its sale of Debt Securities expeditiously.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest) may issue and sell one or more series of its First Mortgage Bonds, Debentures, Unsecured Notes, Promissory Notes, or establish an Intermediate-Term Credit Facility in the aggregate principal amount of up to $20,000,000, at any time or from time to time, on or before

December 31, 1983 in one or more financings by means of competitive bidding, negotiated public offerings, or negotiated private placement.

2. Southwest may execute (1) a supplemental indenture of the Mortgage Indenture for the issuance of additional First Mortgage Bonds, (2) an indenture for the issuance of a new series of Debentures or Unsecured Notes, (3) a supplemental indenture to the Promissory Note Indenture for the issuance of a new series of Promissory Notes, or (4) an agreement for an Intermediate-Term Credit Facility, as the case may be; and, in the case of additional First Mortgage Bonds, Southwest may pledge its property as security for the issuance of these securities.

3. Southwest's financings through negotiated public offering and negotiated private placement are exempted from the Commission's competitive bidding requirements.

4. Southwest shall apply the net proceeds from the sale of its new Debt Securities to the purposes set forth in the application.

5. Promptly after Southwest awards any contract for the sale of its new Debt Securities, if by competitive bidding, it 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.

6. If the new Debt Securities are sold by competitive bidding or by a negotiated public offering, as soon as possible, Southwest shall file with the Commission three copies of its final prospectus pertaining to its new Debt Securities.

7. Within 30 days after the issuance and sale of any series of new Debt Securities by means of negotiated public offerings or by negotiated private placement, Southwest shall file with the Commission a report showing why the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

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

9. The authority granted by this order to sell new Debt Securities will be effective when Southwest pays $2,566, the fee set by PU Code Section 1904.2.

Dated NOV 17 1982, at San Francisco, California.

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

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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$2,566.—

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

Joseph E. Bodovitz, Executive Director

date and (b) to provide additional capital to fund ongoing construction.

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