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Decision No. 87716 August 16, 1977

ORIGINAL

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 750,000 Shares of Common)
Stock.)

Application No. 57437
(Filed July 11, 1977)

O P I N I O N

Southwest Gas Corporation (Southwest) seeks authority to issue and sell not exceeding 750,000 shares of its \$1 par value common stock.

Southwest is a California corporation engaged in the business of distributing and selling natural gas in portions of Placer and San Bernardino Counties. The company also transmits, sells and distributes natural gas in portions of the States of Arizona and Nevada. For the twelve months ended May 31, 1977, Southwest reports operating revenues of \$126,548,274, of which it derived 83% from Nevada, 11% from California and 6% from Arizona.

As of May 31, 1977 Southwest had outstanding \$1,500,000 of short-term debt, the proceeds of which were used for capital improvements. The company's construction budget for the year 1977 amounts to \$9,500,699 which is generally distributed as follows:

<u>Description</u>	<u>Amount</u>
Transmission plant	\$ 832,608
Distribution plant	6,206,685
General plant	1,407,037
Supervision and engineering	654,380
Administrative and general	280,771
Other	<u>119,218</u>
Total	<u>\$9,500,699</u>

Southwest proposes to enter into an underwriting agreement with Blyth Eastman Dillon & Co., Incorporated for the purpose of offering to the public not exceeding 750,000 shares of its \$1 par value common stock. The price of the stock to the public will be dependent upon the market price on the day the underwriting agreement is executed. Expenses for the issuance of said stock and underwriting commission are estimated to total \$500,000. Southwest plans to use a portion of the proceeds from the sale to repay short-term debt and to apply the remainder to expenditures for construction.

The company's capital ratios at May 31, 1977, and as adjusted to give effect to the proposed common stock issue, assuming proceeds of \$7,750,000, are reported as follows:

	<u>May 31, 1977</u>	<u>Pro Forma</u>
Long-term debt	56%	52%
Preferred stock	13	12
Common stock equity	<u>31</u>	<u>36</u>
Total	<u>100%</u>	<u>100%</u>

The Operations Division of the Commission has reviewed Southwest's construction budget and has concluded that the forecasted expenditures are reasonable. Based on an annualized cash flow estimate made for 1977 by the Finance Division of the Commission approximately 53% of funds required for the company's operations would be generated internally and the balance would be obtained from the financing contemplated herein. The Finance Division has concluded that the proposed common stock issue will be necessary to accommodate Southwest's requirements.

After consideration the Commission finds that:

1. The proposed stock would be for proper purposes.
2. Southwest has need for external funds for the purposes set forth herein.
3. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition to Southwest's application and no reason not to grant the authority requested effective when Southwest has paid the prescribed fee. A public hearing is not necessary. In issuing our order herein we place Southwest and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Southwest is hereby placed on further notice that, if the Commission should determine that the negotiated price or underwriting compensation pertaining to the proposed stock issue would result in excessive effective costs, it would take into consideration in rate proceedings only that which it deems reasonable.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation, on or after the date hereof and on or before December 31, 1977, may issue and sell not exceeding 750,000 shares of its \$1 par value common stock on terms and conditions to be negotiated in the manner set forth in the application.

2. Southwest Gas Corporation shall apply the net proceeds from the sale of said stock to the purposes set forth in the application.

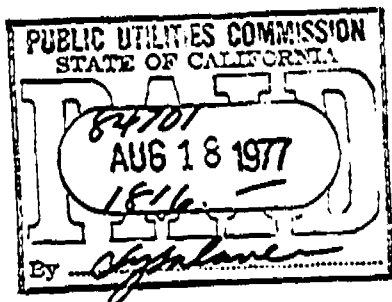
3. Promptly after Southwest Gas Corporation ascertains the underwriting commission and the price to be paid for the common stock herein authorized, the company shall notify the Commission thereof in writing.

4. As soon as available, Southwest Gas Corporation shall file with the Commission three copies of its final prospectus pertaining to said stock.

5. Within one month after issuing and selling the common stock herein authorized, Southwest Gas Corporation shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purpose for which the net common stock proceeds were used.

6. This order shall become effective when Southwest Gas Corporation has paid the fee prescribed by Section 1904.2 of the Public Utilities Code, which fee is \$1,816.

Dated at San Francisco, California, this 16th day of AUGUST, 1977.



Robert D. Farwell
President
William J. Quinn, Jr.
Reginald S. Styringer
Richard E. Swable

Commissioners
Commissioner CLAIRE T. DEDRICK
present but not voting.