hn

Decision No. 89105 JUL 25 1978

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 $10,000,000 Aggregate Principal Amount of First Mortgage Bonds, 9-3/8% Series Due 1993 on a Negotiated Basis.	Application No. 58049 (Filed May 5, 1978)

OPINION

Southwest Gas Corporation (Southwest) seeks authority to execute a sixteenth supplemental indenture and to issue and sell on a negotiated basis $10,000,000 aggregate principal amount of its bonds.

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 March 31, 1978, Southwest reports operating revenues totalling $143,301,095. The utility derived 83% of its operating revenues from Nevada, 11% from California, and 6% from Arizona. Net income for the twelve-month period amounted to $6,407,109.

Southwest informed the staff that estimated capital requirements for the year 1978 are $25,294,083, to be distributed to the utility's operations as follows:

Description	Amount
Transmission plant	$ 1,552,600
Distribution plant	9,824,729
General plant	1,858,068
Supervision and engineering	714,311
Administrative and general	229,731
Other construction overheads	116,644
Southern Nevada wells	820,000
Northern Nevada LNG plant	2,678,000
Deferred gas cost	7,500,000
Total Capital Requirements	$25,294,083

The application indicates that Southwest needs to raise a minimum of $10,000,000 in long-term financing in order to reduce substantially or to repay completely short-term borrowings incurred primarily to finance a portion of the company's construction expenditures. Southwest anticipates that short-term borrowings will reach approximately $5,000,000 at June 30, 1978, and $10,000,000 by December 31, 1978. In order to repay these short-term borrowings promptly the proposed issue of bonds would be sold on a delayed delivery basis with $5,000,000 in bonds to be delivered at an initial closing on or after July 24, 1978 and the remaining $5,000,000 would be delivered at a final closing on or about December 31, 1978.

The company's capital ratios as of March 31, 1978, and as adjusted to reflect the proposed sale of $10,000,000 of bonds are as follows:

Component	March 31, 1978	Pro Forma
Long-term debt	50.5%	54.5%
Preferred stock	11.8	10.8
Common stock equity	37.7	34.7
Total	100.0%	100.0%

Southwest's before-tax coverage at March 31, 1978 was 3.24 times for interest on debt and 2.57 times for combined coverage of interest plus dividends on preferred and preference stock. Based on an annualized cash flow estimate made for 1978 by the Finance Division of the Commission, approximately 48% of the funds required for the company's estimated capital expenditures for 1978 would be generated internally and the balance would be obtained from the financing contemplated herein.

Southwest proposes to issue First Mortgage Bonds, 9-3/8% Series due 1993, secured by an Indenture of Mortgage and Deed of Trust dated June 1, 1951, as heretofore amended and supplemented and as further amended and supplemented by a proposed Sixteenth Supplemental Indenture. The bonds would be redeemable at par plus the coupon rate to and including June 30, 1979, and thereafter at prices declining regularly to par in the last year; however, the bonds would not be redeemable with funds having a lower cost of money prior to July 1, 1983.

The utility would make annual sinking fund payments on each June 30 amounting to $450,000 in each of the four years 1982 through 1985. Annual payments would increase to $800,000 during 1986 through 1989 and thereafter to $1,300,000 through 1992. Such payments would be sufficient to retire 89% of the issue prior to maturity, resulting in an average life of 10-1/2 years for the bonds.

Southwest plans to sell the new bonds under the terms and conditions of a Bond Purchase Agreement to be entered into by the company and each of three purchasers at 100% of the principal amount plus accrued interest. A placement fee of $50,000, equal to one-half of one percent of the principal amount of the bonds would be paid to Blyth Eastman Dillon & Co., Incorporated.

Southwest requests an exemption for the proposed issue and sale of the bonds from the Commission's competitive bidding rule established by Decision No. 38614, dated January 15, 1946, as amended from time to time in Case No. 4761. The company bases its support for exemption from competitive bidding upon several circumstances. First, Southwest has a very limited history in the public bond market, and not an altogether satisfactory one. The company is required, moreover, to seek permanent financing at a point in time when there is investor concern in the capital markets upon the subject of future supply for the natural gas industry.

The application also indicates that Southwest has negotiated with four investment banking firms with respect to the sale of additional long-term debt. In so doing, the utility requested each to indicate the form of debt to be offered along with an estimate of the cost of such debt to the company. The proposed bond issue is the lowest cost alternative submitted to the company and represents a firm commitment in what is currently a deteriorating market for long-term debt. Thus, Southwest concludes that the terms, conditions and interest cost negotiated for the new bonds would be more satisfactory for the utility and its ratepayers than would otherwise be obtained through an offering under competitive bidding.

The Finance Division estimates that after the payment of the placement fee, the effective interest rate of the proposed bond issue would be about 9.47%. The Division observes that short-term interest rates are now moving upward as indicated by recent increases in the prime interest rate to a level of 8.50%; furthermore, long-term bonds rated Baa, such as those of Southwest, are now selling at yields above 9.70%. This leads the Finance Division to conclude that the terms of the proposed financing are reasonable. The 9-3/8% coupon rate negotiated for the bonds is more favorable than the rate Southwest would currently expect to obtain from a public offering.

The Operations Division of the Commission has reviewed Southwest's application and has no objection to granting of the company's request. In reaching this conclusion the Operations Division considered the utility's present rate of growth, the need for new construction, the construction cost index, and the resulting gross capital requirements.

The Utilities Division of the Commission has also reviewed Southwest's application in view of its apparent relationship with financing of an LNG peaking plant for the applicant's northern Nevada System. The LNG plant certification is the subject of: (1) FERC Docket No. CP78-221, wherein this Commission has intervened; (2) an application before the Nevada Public Service Commission, Docket Number 1488, set for public hearing in August, 1978; and (3) Application No. 57936 before this Commission requesting a waiver of jurisdiction. In at least one of said proceedings such issues as need, safety, environmental effect and siting will no doubt be fully developed.

After consideration the Commission finds that:

1. The proposed bond issue is for a proper purpose.
2. Southwest has need for external funds for the purposes set forth in this proceeding.
3. The proposed restricted redemption provision is reasonable.
4. The proposed Sixteenth Supplemental Indenture would not be adverse to the public interest.
5. The sale of the proposed bonds should not be required to be through competitive bidding.

6. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the authority requested in the application. On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The authorization herein granted is for the purposes of this proceeding only, and is not to be construed as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates nor to be construed as Commission authorization for construction of the LNG peaking plant. Because of time commitments related to the issuance of bonds, Southwest requests that the order become effective at the earliest date permissible by law.

This decision is not intended to modify the competitive bidding rule initially established in Decision No. 38614 as amended by the Commission in subsequent decisions in Case No. 4761.

O R D E R

IT IS ORDERED that:

1. The sale by Southwest Gas Corporation of not exceeding $10,000,000 aggregate principal amount of its First Mortgage Bonds, 9-3/8% Series due 1993 is hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended, in Case No. 4761.

2. Southwest Gas Corporation may execute and deliver a Sixteenth Supplemental Indenture in substantially the same form as Exhibit C in this proceeding.

3. Southwest Gas Corporation may issue and sell not exceeding $10,000,000 aggregate principal amount of its First Mortgage Bonds, 9-3/8% Series due 1993, under substantially the terms set forth in the Bond Purchase Agreement, a copy of which is filed in this proceeding as Exhibit D.

4. Southwest Gas Corporation shall use the proceeds from the sale of the bonds herein authorized for the purposes specified in this proceeding. The accrued interest may be used for such purposes or for general corporate purposes.

5. Southwest Gas Corporation shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

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 $2,100.

Dated at San Francisco, California, this 25th day of JULY, 1978.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
88358
JUL 25 1978
2100
By

President

Commissioners