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Decision No. 89262 AUG 22 1978

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of Southwest Gas Corporation for) Application No. 58217
Authority to Issue and Sell not) (Filed July 12, 1978)
to Exceed 1,000,000 Shares of)
Common Stock.)
_____)

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority to issue and to sell not exceeding 1,000,000 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 San Bernardino and Placer Counties. The company also transmits, sells, and distributes natural gas in portions of the States of Nevada and Arizona. For the twelve months ended April 30, 1978, Southwest reports operating revenues of \$141,158,881, of which it derived 83% from operations in Nevada, 6% from Arizona, and 11% from California. Net income for the same period totalled \$6,040,207.

As of April 30, 1978, Southwest had outstanding \$1,000,000 of short-term debt, the proceeds of which were used for capital improvements. The company's construction budget for the year 1978 amounts to \$25,294,083.

Southwest plans to use the proceeds from the sale of stock to reduce substantially or to repay completely short-term debt heretofore incurred for capital improvements, and also to make additional capital improvements. Southwest has chosen to issue common stock for the above purposes in order to maintain and possibly to increase the common equity portion of its total capitalization. The utility filed an application in May of this year for the issuance of \$10,000,000 in bonds^{1/}; hence, the need for equity financing in order to maintain the desired capital structure.

^{1/} Authorized by Decision No. 89105, dated July 25, 1978 in Application No. 58049.

Southwest's capital ratios at April 30, 1978, and pro forma as of December 31, 1978, are presented below. The pro forma figures give effect to both the proposed common stock issue and the first mortgage bonds, which are the subject of Application No. 58049.

	<u>April 30, 1978</u>	<u>Pro Forma December 31, 1978</u>
Long-term debt	51.1%	52.0%
Preferred stock	11.9	10.0
Common stock equity	<u>37.0</u>	<u>38.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The proposed stock is to be offered to the public through underwriters represented by Blyth Eastman Dillon & Co. Incorporated on or about August 23, 1978 or as soon thereafter as possible. If all of the stock is sold, Southwest expects net proceeds of \$10,500,000 after deducting issuance expenses and underwriting commissions expected to total approximately \$500,000. The price of the stock to the public is dependent upon the market price on the day the underwriting agreement is executed.

The Finance Division concludes that the proposed financing is reasonable. The Operations Division has reviewed the utility's present rate of growth, the need for new construction, the construction cost index, and the resulting gross capital requirements and concurs in the Finance Division's recommendation.

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 so that authorization herein granted is not to be construed as Commission authorization for construction of the LNG peaking plant.

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

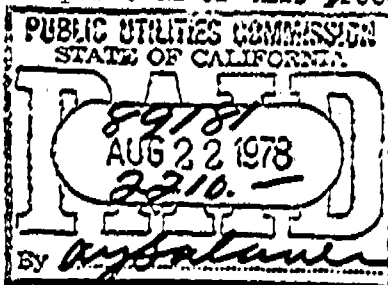
IT IS ORDERED that:

1. Southwest Gas Corporation, on or after the date hereof and on or before December 31, 1978, may issue and sell not exceeding 1,000,000 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. 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 \$2,210.

Dated at San Francisco, California, this 22nd day of AUGUST, 1978.

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire E. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.



Robert Bateman
President
William J. Brown
Thomas L. Sturgeon

Commissioners