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Decision No. 91066 NOV 30 1979

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 $35,000,000 Aggregate Principal Amount of First Mortgage Bonds, 10.5 Percent Series Due 1994 on a Negotiated Basis.	Application No. 59213 (Filed October 17, 1979) and Amendment (Filed November 1, 1979)

OPINION

Southwest Gas Corporation (Southwest) requests authority, pursuant to Sections 816 through 830 and 851 of the Public Utilities Code, (a) to execute a Seventeenth Supplemental Indenture encumbering its property and (b) to issue and sell on a negotiated basis $35,000,000 aggregate principal amount of its First Mortgage Bonds, 10.5% Series due 1994. Notices of the filings of the application and amendment were published in the Commission's Daily Calendars of October 18 and November 2, 1979, respectively.

Southwest is a California corporation engaged in the business of distributing and selling natural gas in portions of San Bernardino and Placer Counties and as such is subject to the regulation of this Commission. The utility also transmits, sells and distributes natural gas intrastate in portions of the States of Nevada and Arizona.

Attached to the application as Exhibit A is an Income Statement for the 12 month period ending August 31, 1979, showing that Southwest generated operating revenues and net income of $213,536,592 and $8,071,724, respectively. Southwest reports in its application it derived its operating revenues in the following states:

State	Percentage
California	9.5%
Arizona	21.3
Nevada	69.2
Total	100.0%

The company's Balance Sheet as of August 31, 1979, is summarized as follows:

Assets	Amount
Net Utility Plant	$178,197,390
Other Property and Investments	4,321,415
Current Assets	64,173,805
Deferred Debits	7,613,848
Total	$254,306,458
Liabilities and Common Equity	
Common Equity	$ 54,278,645
Preferred/Preference Stock	12,780,000
Long-Term Debt	64,912,387
Current and Accrued Liabilities	110,995,087
Deferred Credits	11,340,339
Total	$254,306,458

The application indicates that Southwest needs to raise a minimum of $35,000,000 in additional long-term debt in order to refinance, in part, a $39,100,000 eight percent subordinated promissory note, maturing December 31, 1979, which Southwest issued to Tucson Electric Power Company (TEP) in connection with Southwest's acquisition of TEP's gas utility assets on April 1, 1979. The proceeds from the sale of the proposed First Mortgage Bonds together with additional funds (a) of approximately $23,500,000 realized from the sale of 2,000,000 shares of Common Stock[1] and (b) $12,000,000 expected to be realized from the proposed sale of 120,000 shares of Cumulative Preferred Stock, 9.5 percent Dividend Series[2], will be used to repay the promissory note issued to TEP, to repay any short-term bank borrowings, and to provide additional capital to fund ongoing construction.

Southwest's capital ratios (including short-term debt) at August 31, 1979, and as adjusted for the transactions noted above (including the proposed sale of bonds represented by this application) are shown as follows:

	August 31, 1979	Pro Forma
Short-Term Debt		
Notes Payable to Banks	7.3%	-%
Note Payable to TEP	21.2	-
Total Short-Term Debt	28.5	-
Long-Term Debt	35.2	49.1
Preferred Equity	6.9	12.2
Common Equity	29.4	38.7
Total Capitalization	100.0%	100.0%

The application indicates that Southwest plans to sell the proposed First Mortgage Bonds, 10.5 percent Series, under the terms and conditions of a Bond Purchase Agreement to be entered into by the company and each of eleven purchasers at 100 percent of the principal amount plus accrued interest. A placement fee of $131,250, equal to .375 percent of the principal amount of the new bonds, would be paid to Blyth Eastman Dillon & Co., Incorporated.

1/ Authorized in Decision No. 90790, dated September 12, 1979, in Application No. 58996.

2/ Subject of Application No. 59214, filed October 17, 1979, currently before the Commission

The proposed First Mortgage Bonds are to be 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 Seventeenth Supplemental Indenture. The bonds would be redeemable at par plus the coupon rate to and including December 15, 1980, and thereafter at prices declining regularly to par in the last year; however, the bonds would not be redeemable prior to December 15, 1989 (ten years) with funds representing a lower cost of money to Southwest.

The amended application indicates that Southwest believes that the increase in the term of non-refundability on the First Mortgage Bonds from five years to ten years does not materially detract from the attractiveness of the proposed terms of the bonds. Southwest was advised by its investment bankers that it could not renegotiate the terms of the proposed bonds, under prevailing market conditions to reduce the term of non-refundability to five years, without incurring a substantial increase in the rate of interest. Moreover, under the terms of the proposed Seventeenth Supplemental Indenture, Southwest does have the right at its option to increase the amount of any fixed sinking fund payment by an amount not to exceed 100 percent. Such right does provide important relief from the ten year non-refundability provision in the event that bond market conditions should prove favorable.

Southwest would make annual sinking fund payments on each December 15 amounting to $1,575,000 in each of the four years 1983 through 1986. Annual payments would increase to $2,800,000 during 1987 through 1989 and thereafter to $4,550,000 through 1993. Such payments would be sufficient to retire 89 percent of the bonds prior to maturity resulting in an average life of 10.75 years.

The bonds are redeemable at par plus accrued interest for sinking fund purposes. Southwest may make optional, noncumulative sinking fund payments in amounts up to 100 percent of each regular sinking fund payment to a maximum of $10,500,000.

Southwest requests an exemption for the proposed issue and sale of 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. Second, as of October 9, 1979, the prime interest rate charged by many banks (including Bank of America, lead bank in Southwest's credit lines) increased to 14.5 percent and some corporate bonds rated single A by Moody's were traded at prices yielding in excess of 11 percent interest. The interest rate of 10.5 percent negotiated by Southwest for the bonds prior to the sharp market downturn appears attractive under prevailing conditions. 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 Revenue Requirements Division estimates that after the payment of the placement fee, the effective interest rate of the proposed bond issue would be about 10.53 percent. 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 15.50 percent; furthermore, long-term bonds rated Baa, such as those of Southwest, are now selling at yields above 12.50 percent.

The Revenue Requirements Division concludes that the terms of the proposed financing are reasonable and the 10.50 percent coupon rate negotiated for the bonds is more favorable than the rate Southwest could currently expect to obtain from a public offering.

Southwest has informed the Commission staff that it intends to situate and structure the proposed issuance and sale of its bonds outside of the State of California. Since Southwest's proposal does not operate to the detriment of the utility or its ratepayers, we are not opposed to such structuring and situating of the proposed issuance and sale.

The Revenue Requirements Division of the Commission staff has reviewed the application and concludes that the proposed financing is reasonable. In reaching this conclusion, the Division considered the utility's present rate of growth, the need for new construction, the construction cost index, and the resulting gross capital requirements; however, the Division reserves the right to reconsider the reasonableness of construction expenditures and the TEP acquisition in future rate proceedings.

Findings of Fact

1. Southwest is a California corporation operating under the jurisdiction of this Commission.
2. The proposed bond issue is for proper purposes.

3. Southwest has need for external funds for the purposes set forth in this proceeding.

4. The proposed Seventeenth Supplemental Indenture would not be adverse to the public interest.

5. The proposed restricted redemption provision is reasonable.

6. The sale of the proposed bonds should not be required to be through competitive bidding.

7. Pursuant to plenary powers granted to the Legislature by Article XII, Section 5 of the California Constitution, the Legislature is authorized to confer additional consistent powers upon the Public Utilities Commission as it deems necessary and appropriate, unrestricted by any other provisions of the California Constitution.

8. The Legislature has conferred upon the Public Utilities Commission the authority to regulate the issuance of public utility securities, including evidence of indebtedness, and to prescribe restrictions and conditions as it deems reasonable and necessary (Sections 816 et seq. of the Public Utilities Code).

9. Southwest's proposal to situate and structure, if Southwest chooses to do so, the issuance and sale of its proposed bonds outside of the State of California is not inconsistent with the public policy of this State and does not violate a fundamental policy of this State.

10. 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 are not, in whole or in part, reasonably chargeable to operating expenses or to income.

11. 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 application should be granted to the extent set forth in the order which follows.

The authorization granted herein is for the purposes of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

ORDER

IT IS ORDERED that:

1. The sale by Southwest Gas Corporation of not exceeding $35,000,000 aggregate principal amount of its First Mortgage Bonds, 10.5 percent Series due 1994, 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 Seventeenth Supplemental Indenture in substantially the form of Exhibit B attached to the application.

3. Southwest Gas Corporation may issue and sell not exceeding $35,000,000 aggregate principal amount of its First Mortgage Bonds, 10.5 percent Series due 1994, to institutional purchasers under substantially the terms set forth in the application as amended.

4. Southwest Gas Corporation shall apply the proceeds from the sale of the First Mortgage Bonds for the purposes specified in the application as amended.

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 $5,620.

Dated NOV 30 1979, at San Francisco, California.

John E. Bryson
President

Commissioners

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