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Decision No. _____

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 120,000 Shares of Cumulative Preferred Stock 9.5% Dividend Series.

Application No. 59214
(Filed October 17, 1979)

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority, pursuant to Sections 816 through 818 of the Public Utilities Code, to issue and sell not exceeding 120,000 shares of its Cumulative Preferred Stock, 9.5% Dividend Series, having a \$100 par value. Notice of the filing of the application appeared on the Commission's Daily Calendar of October 18, 1979.

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.

Attached to the application as Exhibit B 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 derived its operating revenues from various states as follows:

<u>State</u>	<u>Percentage</u>
California	9.5%
Arizona	21.3
Nevada	69.2
Total	<u>100.0%</u>

A.59214 1q

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

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$178,197,390
Other Property and Investments	4,321,415
Current Assets	64,173,805
Deferred Debits	<u>7,613,848</u>
Total	<u>\$254,306,458</u>
<u>Liabilities and Common Equity</u>	
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	<u>11,340,339</u>
Total	<u>\$254,306,458</u>

As stated in the application, Southwest has need to sell long-term securities in order to repay \$39,100,000 of short-term indebtedness due December 31, 1979 (in connection with Southwest's acquisition of Tucson Electric Power Company's utility properties purchased April 1, 1979), to repay short-term bank borrowings and to raise additional capital funds for its construction program.

Southwest's recorded capital ratios at August 31, 1979, and pro forma ratios to include the sale of 120,000 shares of Cumulative Preferred Stock are as follows:

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

A.59214 1q

The above ratios reflect a capital structure which includes short-term debt at August 31, 1979 and as adjusted for the sale of (a) 2,000,000 shares of common stock^{1/}, (b) the proposed issuance and sale of \$12,000,000 of Cumulative Preferred Stock^{2/}, and (c) the proposed issuance of \$35,000,000 of First Mortgage Bonds.^{3/}

Southwest proposes to pay Blyth Eastman Dillon & Co., Incorporated a placement fee for the proposed issue of preferred stock equal to 0.5% of the aggregate purchase price of \$12,000,000 or approximately \$60,000.

The Revenue Requirements Division estimates, that after the payment of the placement fee, the effective dividend rate of the proposed stock issue would be about 9.53%. 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%; furthermore, publicly traded preferred stocks rated "baa", similar to those of Southwest, are now traded at levels in excess of 12%.

All of the 120,000 shares of the Cumulative Preferred Stock 9.5% dividend series will be purchased by six institutional investors in amounts ranging from 5,000 to 55,000 shares.

As a sinking fund for the proposed stock, Southwest is required to purchase, on or prior to December 1 of each year commencing December 1, 1985 and continuing through December 1, 1999, 8,000 shares of the proposed stock. The sinking fund redemption price is the par value plus accrued and unpaid dividends to the date of redemption. Southwest has the option in each year in which a sinking fund payment

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

2/ Represents the present Application No. 59214, filed October 17, 1979.

3/ Subject of Application No. 59213, filed October 17, 1979, currently before the Commission.

A.59214 1q

must be made to purchase additional shares of the proposed stock up to an amount equal to the number of shares required to be purchased at the sinking fund redemption price but may not purchase in excess of 45,000 shares in any such year.

The Revenue Requirements Division of the Commission staff has reviewed the application and concludes the proposed financing is reasonable; 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 sale of cumulative preferred stock would be for proper purposes.

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

4. 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.

5. There is no known opposition to this proceeding 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.

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

A.59214 1q

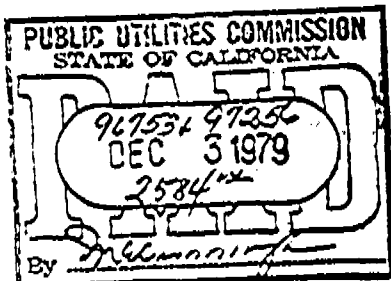
investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation, on or after the effective date hereof and on or before June 30, 1980, may issue and sell not exceeding 120,000 shares of \$100 par value Cumulative Preferred Stock, 9.5% Dividend Series, by public offering in the manner set forth in the application.
2. Southwest Gas Corporation shall apply the net proceeds from the sale of the preferred stock herein authorized to be issued for the purposes set forth in the application.
3. 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.
4. The authority granted by this order shall become effective upon the date Southwest Gas Corporation pays the fee prescribed by Section 1904.1 of the California Public Utilities Code, which fee is \$2,584.

Dated NOV 30 1979, at San Francisco, California.



John E. Coyne
President
William J. Sturgeon
Richard D. Kinoshita
C. Paul J. DeLoach
Loren W. Spence
Commissioners