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Decision No. 92065 JUL 29 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SOUTHWEST GAS CORPORATION for approval to issue short-term indebtedness exceeding five percent of its total capitalization.

Application No. 59702
(Filed June 2, 1980)

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority to issue short-term indebtedness not exceeding 15 percent of its other outstanding securities or \$30,691,050 including that authorized by Section 823(c) of the Public Utilities Code.

Notice of the filing of the application appeared on the Commission's Daily Calendar of June 3, 1980. This request is made pursuant to Section 823(c).

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 Nevada and Arizona.

Southwest's Income Statement for the twelve months ending December 31, 1979 shows that it generated operating revenues of \$295,892,698 and net income of \$9,720,425. Southwest derived its operating revenues from the various states as follows:

<u>State</u>	<u>Percentage</u>
California	7.5%
Arizona	27.2
Nevada	<u>65.3</u>
Total	<u>100.0%</u>

The company's Balance Sheet as of March 31, 1980, included in the application as Exhibit B is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$211,301,671
Other Property and Investments	4,740,094
Current Assets	66,027,435
Deferred Debits	<u>8,901,029</u>
Total	<u>\$290,970,229</u>
<u>Liabilities and Capital</u>	
Common Equity	\$ 82,410,451
Preferred/Preference Stock	24,660,000
Long-Term Debt	97,537,053
Current and Accrued Liabilities	70,797,566
Deferred Credits	<u>15,565,159</u>
Total	<u>\$290,970,229</u>

In this proceeding, Southwest seeks authority to issue short-term obligations from time-to-time in an aggregate principal amount not exceeding 15 percent of the par value of its currently outstanding securities including that authorized by Section 823(c) of the Public Utilities Code. Applicant currently has no short-term obligations outstanding but believes it needs this authorization for the reasons discussed in the application. Attached to the application as Exhibit B is a detailed listing of the utility's outstanding securities as of March 31, 1980. A computation of the amount of short-term indebtedness requested is as follows:

<u>Security</u>	<u>Amount</u>
Common Stock Equity	\$ 82,410,000
Preferred/Preference Stock	24,660,000
Long-Term Debt	97,537,000
Total	<u>\$204,607,000</u>
5% Limit Allowed by FUC Section 823(c)	<u>\$ 10,230,350</u>
Total Authority Requested (15% of par value of securities outstanding)	\$ 30,691,050
Less: 5% Allowed Under FUC Section 823(c)	<u>10,230,350</u>
Balance of Short-Term Borrowing Requested	<u>\$ 20,460,700</u>

Since Southwest may issue \$10,230,350 in short-term indebtedness without Commission approval, the staff's computation indicates that approval is needed for authority to issue an additional \$20,460,700. The fee to be charged under Section 1904.2(b) of the Public Utilities Code will be based on 7.5% of this figure, representing California's portion of total company operating revenue; therefore the fee pursuant to Section 1904(b) of the Public Utilities Code, is based on an aggregate amount not exceeding \$1,534,553 of the short-term debt authorization requested.

The staff of the Commission's Revenue Requirements Division has reviewed Southwest's request for authorization to issue \$30,691,050 in short-term indebtedness. The utility did not specify the period during which the authorization would be effective. In order for the Commission to review and retain control over utility financing, it is necessary to place a time limit on the authority granted in this proceeding. The staff suggests the Commission place a time limit of two to three years into the future in which its authority can be exercised. The staff recommends the Commission place a time limit of July 1, 1983, on Southwest's authorization and believes this period to be reasonable. The Commission concludes that the staff's recommendation is reasonable and therefore the time limit will be adopted.

Southwest is engaged in an extensive construction program and estimates that the gross expenditures required for this construction program during 1980, 1981, and 1982 will approximate \$211,277,000. Supplemental data on the utility's construction program was supplied the Commission by the utility's attorney in a letter dated June 25, 1980, showing estimates as of April 1980, as follows:

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total Budgeted Construction	\$47,759,000	\$66,775,000	\$96,743,000
Less: Internally Generated Funds	<u>17,212,000</u>	<u>14,944,000</u>	<u>22,323,000</u>
External Funds Required	<u>\$30,547,000</u>	<u>\$51,831,000</u>	<u>\$74,420,000</u>
Percent of Funds Internally Generated	<u>36.0%</u>	<u>22.4%</u>	<u>23.1%</u>

Southwest's capital ratios as of March 31, 1980, recorded and as adjusted to give effect to (a) the proposed issuance of not exceeding an aggregate amount of \$30,691,050 in short-term promissory notes and (b) the proposed issuance of 1,000,000 shares of Common Stock, \$1 par value, at an assumed sale price of \$11.50 per share to provide net proceeds of \$11,500,000^{1/} are as follows:

	<u>March 31, 1980</u>	<u>Pro Forma</u>
Long-Term Debt	47.7%	39.5%
Short-Term Debt	<u>-</u>	<u>12.4</u>
Total Debt	47.7	51.9
Preferred/Preference Stock	12.0	10.0
Common Stock Equity	<u>40.3</u>	<u>38.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

According to the application, Southwest anticipates the need to use short-term borrowing to augment working capital related to daily operations during periods when collections of customer billings lag payments to gas suppliers. The application further states that short-term indebtedness will be used to fund construction requirements which exceed internally generated funds pending refinancing with long-term capital. Finally, the application notes that Southwest must defer collection of gas costs according to rules in the various jurisdictions in which it operates, which when combined with significant increases in such gas costs, will require a greater amount of short-term financing than has previously been experienced.

The staff of the Commission's Revenue Requirements Division has reviewed Southwest's 1980, 1981 and 1982 construction program and concludes that the estimated construction expenditures are reasonable. The staff has no objection to the proposed issuance of short-term indebtedness as specified in the application; however, the Division reserves the right to reconsider the reasonableness of any construction expenditures in future rate proceedings.

^{1/} Authorized by Decision No. 92066 dated JUL 29 1980,
in Application No. 59704.

Findings of Fact

1. Southwest is a California corporation operating under the jurisdiction of this Commission.

2. The proposed issuance of short-term borrowing would be for proper purposes.

3. Southwest has need for short-term funds for the purposes set forth in the application.

4. The time limit of two to three years in which the Commission's authority can be exercised is reasonable and in the public interest.

5. The money, property or labor to be procured or paid for by the short-term indebtedness 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.

6. There is no known opposition and no reason to delay granting the authority requested in the application.

Conclusions of Law

1. A public hearing is not necessary.

2. The Commission concludes that the application should be granted to the extent set forth in the order which follows.

The action taken herein shall not be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates, nor as indicative of the action the Commission would take on an application or applications for permanent financing.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation may issue short-term obligations, on or after the effective date hereof, evidenced by promissory notes and/or other instruments issued and reissued from time-to-time, not exceeding \$30,691,050 or 15 percent of the par value of other outstanding securities as prescribed by Section 823(c) of the Public Utilities Code. This authority shall remain in effect through July 1, 1983, and will cover renewals, extensions, or replacements thereof.

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2. Southwest Gas Corporation shall apply the net proceeds from the bank notes herein authorized for the purposes set forth in the application.

3. Within ten (10) business days after execution of bank notes or credit agreements and/or any renewals, extensions, replacements or modifications thereof, Southwest Gas Corporation shall file a true copy of each agreement with the Commission.

4. This order shall become effective when Southwest Gas Corporation has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,535.

Dated JUL 29 1980, at San Francisco, California.

John E. Bayon
President
Person L. ...
Robert W. ...
Donald J. ...
Clare J. ...
Commissioners

