

ORIGINAL¹⁶

Decision No. 92245 SEP 18 1980

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 not to exceed
\$15,000,000 aggregate principal amount
of long-term debt.

} Application No. 59817
(Filed July 17, 1980)

O P I N I O N

Southwest Gas Corporation (Southwest) seeks authorization to issue and sell First Mortgage Bonds or Promissary Notes, the aggregate principal amount not to exceed \$15,000,000 of long-term debt. Notice of filing of the application was published in the Commission's Daily Calendar of July 22, 1980. No protests to the application have been received.

Southwest is a corporation organized and existing under the laws of the State of California and is engaged in the business of distributing and selling natural gas in certain portions of San Bernardino County and Placer County, California, as a public utility subject to the jurisdiction of this Commission. For the 12 months ended May 31, 1980, Southwest had operating revenues of \$348,122,363, which were derived 7.06 percent from operations in California, 29.24 percent from Arizona, and 63.70 percent from Nevada.

Southwest's capital structure (including short-term debt) at May 31, 1980, as adjusted for (1) the proposed sale of 1,000,000 shares of common stock (pending before the Commission in Application No. 59704 and (2) the proposed issuance and sale of \$15 million of new long-term debt, is as follows:

	<u>May 31, 1980</u>	<u>Pro Forma</u>
Short-term Debt	2.6%	- %
Long-term Debt	46.8	48.6
Preferred Equity	11.9	10.7
Common Equity	<u>38.7</u>	<u>40.7</u>
Total	100.0%	100.0%

Southwest proposes to create and sell not to exceed \$15,000,000 aggregate principal amount of new long-term debt either (1) in the form of additional First Mortgage Bonds to be issued under and in accordance with the provisions of that certain Indenture of Mortgage and Deed of Trust dated as of June 1, 1951 between Southwest and Bank of America National Trust and Savings Association and D. C. Easterday, Trustees (successors to Union Bank and Trust Co. of Los Angeles, Trustee), and Indentures amendatory and supplemental thereto, and a proposed Eighteenth Supplemental Indenture; or (2) in the form of additional Promissory Notes to be issued in accordance with the provisions of that certain Indenture dated as of April 1, 1976 between Southwest and Valley Bank of Nevada, Trustee (Note Indenture), as supplemented by a First Supplemental Indenture.

Southwest alleges a need to obtain a maximum of \$15 million of additional long-term debt financing in order to repay short-term bank borrowings estimated to be outstanding on the closing date, and to provide additional capital to fund ongoing construction.

Southwest proposes to sell additional First Mortgage Bonds or additional Promissory Notes, either by private placement with institutional investors or by public offering through underwriters, depending upon prevailing circumstances which will dictate where the most advantageous terms and cost of money can be obtained. Southwest is negotiating with different investment banking firms to ascertain where the best terms and the lowest cost of money can be obtained and intends to inform the Commission of its decision if authorized and when made. Market conditions are portrayed as volatile; and

Southwest believes that it can negotiate and execute an underwriting or purchase agreement and sell or obtain binding commitments for the purchase of the new long-term debt, upon short notice and on the most advantageous terms available once it has obtained the authority to do so from the Commission and from the Arizona Corporation Commission.

If Commission authorization is granted as requested, Southwest will negotiate and pay an underwriting commission or a placement fee equal to a percentage of the principal amount of the new long-term debt, such fee to be specified in the purchase or underwriting agreement. A copy of each such agreement executed by Southwest will be filed with the Commission promptly after the execution thereof.

Southwest seeks an exemption for the sale of the new long-term debt from the Commission's competitive bidding rules, as recently affirmed in Decision No. 91984. For numerous reasons, Southwest believes that the new long-term debt should be sold on a negotiated basis, as proposed, rather than auctioned under competitive bidding procedures. Southwest has a very limited history in the public bond market, and a not altogether satisfactory one. Previous issues of its First Mortgage Bonds sold at competitive bidding turned out to be more expensive than expected, and in one case more expensive than a firm commitment that had been obtained, which commitment was voided because competitive bidding was required. In comparison, a review of Southwest's outstanding long-term debt issues shows that Southwest has achieved at least modest success, particularly in recent years, in negotiating the sale of its long-term debt issues.

In view of Southwest's showing and in the absence of protest, we are inclined to grant the authority, subject to certain modifications. Southwest has sought to demonstrate that the size and attraction of its proposed offering warrant a negotiated placement on grounds that similar placements have resulted in sales of long-term debt at a lower net interest cost to Southwest than issues placed through competitive bidding procedures. However, we are not persuaded that a negotiated placement is necessarily the best method by which to sell the issue in question. We are persuaded that maximum flexibility in placing the issue best serves the interests of Southwest and its ratepayers. Maximum flexibility is provided by granting Southwest the authority to issue its long-term debt either by negotiated placement or by competitive bid. Accordingly, we will grant alternate authority to Southwest to issue and sell its long-term debt by negotiated placement or by competitive bid.

Findings of Fact

1. Southwest is a California corporation operating under the jurisdiction of this Commission.
2. The proposed sale of debt securities is for proper purposes.
3. The utility has need of external funds for the purposes set forth in these proceedings.
4. The terms and conditions of the proposed issuance and sale of debt securities are just and reasonable and in the public interest.
5. The money, property, or labor to be procured or paid for by the issuance and sale of the debt securities 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.

6. An early effective date of this order will facilitate a successful placement of the proposed issue.

Conclusion of Law

The authorization, as modified and ordered, is reasonable; and the application will be granted as being in the public interest. 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.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation (Southwest) may execute a supplemental indenture to either the Mortgage Indenture or the Note Indenture, and in the case of the former, to pledge its property as security for the issuance of new First Mortgage Bonds.

2. Southwest may issue and sell not to exceed \$15,000,000 aggregate principal amount of long-term debt in the form of either additional First Mortgage Bonds or Promissory Notes, under terms and conditions as set forth in the application; or

3. Southwest may issue and sell not to exceed \$15,000,000 aggregate principal amount of long-term debt in the form of either additional First Mortgage Bonds or Promissory Notes, under terms and conditions established by competitive bidding.

4. Southwest shall use the proceeds of the issuance and sale of not exceeding \$15,000,000 principal amount of said debt securities for the purposes stated in the application.

5. Promptly after Southwest determines the price or prices and interest rate or rates pertaining to the debt securities herein authorized, it shall notify the Commission thereof in writing.

6. Southwest 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.

This order shall become effective when Southwest has paid the fee prescribed by Section 1904.2 of the Public Utilities Code, which fee is \$2,125. ✓

Dated SEP 16 1980, at San Francisco, California. ✓

John E. Carson
President

James L. Stinson

Michael W. Howell

Charles J. Pedraza

James M. Smith
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA

101552
SEP 16 1980
2,125.

By dyfalaner