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ORIGINALDecision No. 92310 OCT 8 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHWEST GAS CORPORATION)
 For Authority to Establish an)
 Intermediate Term Credit Facility to)
 Issue and Sell Commercial Paper Notes)
 and/or Notes Payable to Banks Not to)
 Exceed \$60,000,000 in Aggregate)
 Principal Amount, and Certain Other)
 Matters.)

Application No. 59864
 (Filed August 8, 1980)

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority, pursuant to Sections 816 through 830 and 851 of the Public Utilities Code, to establish an intermediate-term credit facility to issue and sell commercial paper notes and/or notes payable to banks in an aggregate principal amount not to exceed \$60,000,000. Notice of the filing of the application appeared on the Commission's Daily Calendar of August 11, 1980.

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.

Southwest's Income Statement for the twelve months ended December 31, 1979, shows that Southwest generated operating revenues of \$295,892,698 of which 7.5% was earned in the State of California. Its 1979 net income was \$9,720,425. For the twelve months ended June 30, 1980, Southwest reports operating revenue of \$346,319,746 and net income of \$10,598,506.

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The company's Balance Sheet as of June 30, 1980, attached to the application as Exhibit A is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$221,156,834
Other Property and Investments	4,905,874
Current and Accrued Assets	47,546,902
Deferred Debits	<u>7,088,746</u>
Total	<u>\$280,698,356</u>
<u>Liabilities and Other Credits</u>	
Common Equity	\$77,475,884
Preferred/Preference Stock	24,660,000
Long-Term Debt	97,323,073
Current and Accrued Liabilities	66,066,015
Deferred Credits	<u>15,173,384</u>
Total	<u>\$280,698,356</u>

According to the application, Southwest has need to obtain intermediate term credit in the maximum amount of \$60,000,000 in order to finance the construction of a liquefied natural gas (LNG) peak shaving plant and related facilities including 61 miles of 20-inch O.D. loop transmission main (collectively called "LNG Plant") in and southwesterly of Humboldt County, Nevada. To satisfy this need, applicant proposes to establish a construction trust (Construction Trust) which will be the owner of the LNG Plant during construction and will be the issuer of commercial paper notes supported by bank letter of credit and/or notes payable to a bank (such indebtedness of either type being sometimes herein collectively called "trust obligations," and such bank issuing its supporting letter of credit and/or making direct loans being sometimes herein called "the Bank").

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The application further indicates that Southwest will have an unconditional obligation, upon the completion of the LNG Plant or upon a date certain or upon the occurrence of certain other events, whichever shall first occur, to purchase the LNG Plant from the Construction Trust at a price equal to the total investment therein. For all practical purposes and within the meaning of Section 851 of the California Public Utilities Code, this will make applicant a guarantor of all of the trust obligations, and the prior approval of such undertaking of applicant by the Commission is therefore required.

Southwest's capital ratios as of June 30, 1980, and as adjusted for the effect of (a) the proposed issuance and sale of intermediate term trust obligations in the form of commercial paper notes and/or notes payable to Banks in the aggregate principal amount of not to exceed \$60,000,000 at any one time outstanding and to be identified as a "Construction Trust Liability"; (b) the issuance of 1,000,000 shares of Common Stock, \$1 par value^{1/}; and (c) the proposed issuance and sale of \$15,000,000 in First Mortgage Bonds^{2/} are listed as follows:

	<u>June 30, 1980</u>	<u>Pro Forma</u>
Long-Term Debt	45.6%	39.3%
Construction Trust Liability	-	21.0
Short-Term Debt	<u>6.6</u>	<u>-</u>
Total Debt	52.2	60.3
Preferred/Preference Stock	11.5	8.6
Common Equity	<u>36.3</u>	<u>31.1</u>
Total	<u>100.0%</u>	<u>100.0%</u>

^{1/} Decision No. 92066, dated July 29, 1980, in Application No. 59704.
^{2/} Decision No. 92245, dated September 16, 1980, in Application No. 59817.

Southwest's proposed Construction Trust is expected to be created for a term of fewer than five years and will issue and sell not to exceed \$60,000,000 aggregate principal amount of trust obligations.

The Construction Trust will be the owner of the LNG Plant during construction and the issuer of the trust obligations, which will include (a) commercial paper notes supported by Bank's letter of credit, and (b) notes payable to the Bank, which will represent direct obligations to the Bank. Upon completion, the LNG Plant will be sold by the Construction Trust to Southwest, at a price equal to the total investment therein, and the trust obligations then outstanding will be repaid, over a period anticipated to extend as long as three years, through application of proceeds from periodic sales by Southwest of long-term debt and equity securities, the types and amounts of which are not currently ascertainable. At the time or times of such financings to repay trust obligations, Southwest will file applications with the Commission seeking authority to issue such securities.

Southwest is soliciting from more than a dozen banks proposals to support and/or purchase trust obligations. From these proposals, Southwest will be able to ascertain where the best terms and the lowest cost of money can be obtained, and will inform the Commission of the Bank it has selected when its decision has been made. Market conditions are volatile, and Southwest believes that it can negotiate and execute a credit agreement, on behalf of the Construction Trust, and obtain binding commitments therefor 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.

The application further states that Southwest proposes to execute the following:

1. A Trust Agreement between Southwest and a trustee to be selected establishing the Construction Trust.
2. A Sale and Purchase Agreement to which Southwest will;
 - a. sell and convey certain property necessary in the construction of the LNG Plant to the Construction Trust; and,
 - b. agree unconditionally to purchase all Construction Trust assets upon completion or at a date certain or upon certain other conditions.
3. An Acknowledgement of Assignment of the Rights contained in the Sale and Purchase Agreement whereby Southwest acknowledges to the Bank Southwest's obligations under the Sale and Purchase Agreement and further acknowledges that the Bank is entitled to the benefits of and may enforce such Sale and Purchase Agreement.

The Application provides that the Construction Trust will execute, among other instruments, a Credit and Security Agreement with the Bank which sets forth the following:

1. The terms on which the Bank's letter of credit will be issued.
2. The terms of issuance of commercial paper notes entitled to benefits of the Bank's letter of credit.
3. The terms of revolving loans to the Construction Trust (evidenced by notes payable) when the Construction Trust elects to borrow directly from the Bank in lieu of or in addition to issuing commercial paper notes.
4. The Construction Trust's obligation to Bank.
5. The security to be pledged to Bank with respect to trust obligations.

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We will require that copies of instruments documenting the proposed transactions on behalf of both applicant and the Construction Trust must be filed with the Commission in executed form as soon as available, but no later than 30 days after the date each agreement or document is executed.

The Construction Trust will have authority to borrow and lend to Southwest moneys in excess of the Construction Trust's immediate needs, and Southwest may borrow funds, on short maturities, directly from the Construction Trust from time to time at the Construction Trust's cost when such cost represents the cheapest source of short-term borrowing available to the utility, but any borrowings by Southwest from the Construction Trust will be and must remain within any maximum short-term indebtedness limitations from time to time applicable to Southwest.

Southwest is engaged in an extensive construction program and estimates the gross expenditures required for its construction program during 1980, 1981 and 1982 will approximate \$221,777,000. Supplemental data on the utility's construction program was supplied the Commission in Exhibit A attached to the application and has been summarized as follows:

	<u>1980</u>	<u>1981</u>	<u>1982</u>
Total Budgeted Construction	\$56,759,000	\$68,275,000	\$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>\$39,547,000</u>	<u>\$53,331,000</u>	<u>\$74,420,000</u>
Percent of Funds Generated			
Internally	<u>30.3%</u>	<u>21.9%</u>	<u>23.1%</u>

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

Findings of Fact

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

2. The creation of a Construction Trust and the proposed establishment of an Intermediate Term Credit Facility to issue and sell commercial paper notes and/or notes payable to banks not to exceed \$60,000,000 would be for proper purposes and would not be adverse to the public interest.

3. The guarantee by Southwest of trust obligations issued by the Construction Trust would not be adverse to the public interest.

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

5. The money, property or labor to be procured or paid for by the issuance of commercial paper notes and/or notes payable herein authorized are 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 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.

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 on or after the date hereof, may establish an Intermediate Term Credit Facility to issue and sell short-term commercial paper notes and/or notes payable to banks not to exceed \$60,000,000 in aggregate principal amount.

2. The Intermediate Term Credit Facility shall apply the net proceeds from the sale and issuance of its commercial paper notes and/or notes payable to banks for the purposes set forth in the application.

3. Southwest Gas Corporation is specifically authorized:

a. To execute a Trust Agreement between Southwest Gas Corporation and a trustee to be selected by Southwest establishing the Construction Trust referred to herein;

b. To execute a Sale and Purchase Agreement between Southwest Gas Corporation and the aforesaid Construction Trust, to sell and convey certain property to the Construction Trust, and to agree unconditionally to purchase the assets of the Construction Trust, upon the completion of the LNG Plant to be constructed by the Construction Trust, or at a date certain, or in certain other events; and

c. To execute an Acknowledgement of Assignment of the Rights contained in the Sale and Purchase Agreement, whereby Southwest Gas Corporation would acknowledge to the Bank providing the supporting letter of credit and/or direct loans to the Construction Trust, Southwest's obligations under the Sale and Purchase Agreement.

4. Southwest Gas Corporation shall file all agreements documenting the proposed transactions on behalf of both the company and the Construction Trust. Such documents must be filed with the Commission in completed form and within 30 days after the date of execution.

5. Southwest Gas Corporation is authorized to guarantee trust obligations issued by the Construction Trust in the maximum aggregate principal amount at any one time outstanding not to exceed \$60,000,000, all trust obligations (but not obligations of Southwest to the Construction Trust) at any one time outstanding to be exempt from any calculation of short-term debt limitations upon Southwest.

6. Authorization is hereby granted to Southwest Gas Corporation to cause the pledge and encumbrance of any and all property of the Construction Trust as security for trust obligations.

7. Authorization is hereby granted to the Construction Trust to issue and reissue commercial paper notes and/or direct obligations to banks to obtain funds (a) to pay for the construction of the LNG Plant and all costs related thereto including costs of financing thereof and (b) to lend and relend to Southwest Gas Corporation funds in excess of those needed for the Construction Trust purposes, but the aggregate principal amount of such commercial paper notes and/or direct obligations to the Bank at any one time outstanding shall not exceed \$60,000,000.

8. Authority is further granted to Southwest Gas Corporation (Southwest) for the issuance and reissuance of its short-term obligations to the Construction Trust in such amounts as will not exceed, when combined with other short-term indebtedness of Southwest Gas Corporation, any limitation on aggregate short-term indebtedness currently authorized Southwest.

9. 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.

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10. The 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 \$5,500.

Dated OCT 8 1980, at San Francisco, California.

John E. Gynn
President
Vernon L. Sturgeon
Michael W. Howell

Lawrence J. Smith
Commissioners

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

