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Decision No. 92514 DEC 16 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 in the Aggregate 500,000 Shares of its Stock to its Employees' Investment Plan, Employee Stock Ownership Plan and Dividend Reinvestment and Stock Purchase Plan.	Application No. 60027 (Filed October 24, 1980)

OPINION

Southwest Gas Corporation (Southwest) requests authority, pursuant to Sections 816 through 818 of the Public Utilities Code, to issue and sell not to exceed in the aggregate 500,000 shares of Common Stock, $1 par value, to its Employees' Investment Plan (EIP), Employee Stock Ownership Plan (ESOP) and its Dividend Reinvestment and Stock Purchase Plan (DRSPP), collectively referred to as "Plans".

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 30, 1980. There have been no protests.

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 August 31, 1980, shows that Southwest generated total operating revenues of $333,952,000 and net income of $9,057,000. Southwest derived $25,662,000, or 7.68 percent, of its operating revenues from the State of California.

Southwest's Balance Sheet as of August 31, 1980, attached to the application as part of Exhibit B is summarized as follows:

Assets	Amount
Net Utility Plant	$225,768,159
Other Property and Investments	5,066,776
Current and Accrued Assets	50,673,045
Deferred Debits	7,048,776
Total	$288,556,756
Liabilities and Equity	
Common Equity	$ 76,681,152
Preferred/Preference Stock	24,420,000
Long-Term Debt	97,253,900
Current and Accrued Liabilities	74,778,391
Deferred Credits	15,423,313
Total	$288,556,756

According to the application, Southwest has need to periodically sell its equity securities in order to reduce or repay its short-term borrowings and raise additional capital funds for its construction program. Southwest also has need to maintain the common stock component of its capital structure at or near the present level in order to maintain the strength of that structure.

Southwest is engaged in an extensive construction program and estimates that the expenditures required for this construction program during the calendar years 1980 and 1981 will approximate $35,000,000 and $30,000,000, respectively.

Southwest's capital ratios as of August 31, 1980, and as adjusted for the pro forma effect to (a) the proposed issuance and sale of 500,000 shares of Common Stock, $1 par value, at an assumed price of $11.25 per share, estimated to produce $5,625,000 under

Southwest's Plans; (b) the sale of 1,000,000 shares of common stock on September 25, 1980[1/]; and (c) the sale of $15,000,000 in First Mortgage Bonds[2/], 12.5% Series C, due September 1, 1995, are as follows:

	August 31, 1980	Pro Forma
Long-Term Debt	44.3%	48.9%
Short-Term Debt	9.6	-
Total	53.9	48.9
Preferred/Preference Stock	11.1	10.7
Common Stock	35.0	40.4
Total	100.0%	100.0%

Southwest proposes to issue and sell 500,000 shares of its Common Stock, $1 par value, which are estimated to produce net proceeds of $5,625,000. No significant issuance expenses and no underwriting commissions are applicable, because such periodic sales, as are contemplated, will be direct sales of common stock by Southwest to the participants in its respective Plans. The price of the common stock to the Plans (and the proceeds to Southwest) will depend upon the New York Stock Exchange (NYSE) prices of the common stock and the pricing formulas established in the Plans.

Currently, all three of Southwest's Plans meet their common stock requirements by purchasing previously issued shares in the open market. Southwest seeks authority in this application to issue and sell to its Plans up to 500,000 shares of its common stock authorized by its Articles of Incorporation but heretofore unissued. Southwest would issue and sell authorized but heretofore unissued shares of the common stock to its Plans at times when the market price per share of the common stock exceeds the book value per share of its outstanding shares. At times when the market price per share of common stock is lower than the book value per share, the Plans would continue to purchase additional shares of common stock on the NYSE.

1/ Decision No. 92066, dated July 29, 1980, in Application No. 59704.

2/ Decision No. 92245, dated September 16, 1980, in Application No. 59817.

The "original issue" method would provide Southwest a means of improving its cash flow by allowing it to retain in the future the moneys it has historically contributed to each of the Plans in order to make market purchases of common stock. Southwest estimates cash flow savings of approximately $2 million per year with no additional costs to the utility or its ratepayers. In addition, the "original issue" method provides a lower cost means of increasing common equity because there are no associated underwriting fees.

Southwest proposes to purchase shares of its common stock on the open market for its Plans when the book value per share exceeds market value, as it is detrimental to existing stockholders to sell new shares of common stock below book value, thereby diluting the earning power of outstanding shares.

The EIP, established in 1965, is a thrift plan designed to encourage systematic savings by employees for retirement or future financial needs. It also provides the opportunity for employees to become stockholders of the corporation and thus strengthen their direct interest in the progress and success of Southwest.

The ESOP, established initially in 1976 and elected each year subsequently, is a stock bonus plan which enables employees to share in the growth of the corporation by acquiring shares of common stock of Southwest as an additional benefit of employment without requiring them to invest their personal savings. The contributions, which Southwest makes to the ESOP, arise out of the additional investment credit against federal income taxes which Southwest is permitted to claim because of the ESOP.

The DRSPP, established in 1974, provides holders of record of the corporation's common stock with a simple and convenient method of investing cash dividends and optional cash payments in additional shares of common stock of Southwest at regular intervals without payment of any brokerage commission or service charge.

Southwest expects no significant issuance expenses and no underwriting commissions associated with the sales of the shares as the periodic sales to the Plans will be direct sales of common stock by Southwest to the participants in the respective Plans.

Southwest proposes to use the proceeds from the periodic sales of the common stock to repay such short-term borrowings as may be incurred for capital improvements prior to the sale of the common stock and to pay for additional capital improvements to its facilities.

The staff of the Commission's Revenue Requirements Division has reviewed the application and 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 proposed sale of Southwest's common 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 sale of the common 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, or the dividends paid as measuring the return it should be allowed to earn on its investment in plant. 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, may issue and sell, not to exceed in the aggregate, 500,000 shares of its Common Stock, $1 par value, to its Employees' Investment Plan, Employee Stock Ownership Plan, and its Dividend Reinvestment and Stock Purchase Plan in the manner set forth in the application.

2. Southwest Gas Corporation shall apply the net proceeds from the sale of the common stock herein authorized for the purposes set forth in the application.

3. As soon as available, Southwest Gas Corporation shall file with the Commission three copies of its final prospectuses pertaining to the sales of the common stock herein authorized.

4. 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.

5. 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 $864.

Dated DEC 16 1980, at San Francisco, California.

Joh E. Bryson
President

Richard D. Gravelle

Claire T. Dedrick

Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Leonard M. Grimes, Jr., being necessarily absent, did not participate.

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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By