

Decision 93200 JUN 16 1981

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 \$12.5 Million Cumulative )  
Preferred Stock or Preference )  
Stock and Common Stock in the )  
Event of Conversion. )

Application 60514  
(Filed May 4, 1981)

ORIGINAL

O P I N I O N

Southwest Gas Corporation (Southwest) requests authority,  
under Public Utilities (PU) Code Sections 816 through 830 to:

1. Issue and sell not to exceed 125,000 shares of its \$100 par value, cumulative preferred stock, or
2. Issue and sell not to exceed 625,000 shares of its \$20 par value, preference stock, and
3. In the event that preference stock is sold, and given conversion rights, to issue not to exceed 1,300,000 shares of its common stock.

Notice of the filing of the application appeared on the Commission's Daily Calendar of May 7, 1981. No protests have been received.

Southwest, a California corporation, engages in the business of distributing and selling natural gas in portions of San Bernardino

and Placer Counties. It also transmits, sells, and distributes natural gas in portions of the States of Nevada and Arizona.

In its Income Statement for the 12 months ended February 28, 1981, Southwest reports it generated total operating revenues of \$320,951,000 and net income of \$7,581,000, shown as part of Exhibit A, attached to the application. Southwest reports it derived 8.8% of its operating revenues from the State of California.

Southwest's Balance Sheet of February 28, 1981, also shown as part of Exhibit A, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$241,082,669
Other Property and Investments	8,718,346
Current and Accrued Assets	71,142,988
Deferred Debits	8,566,736
Total	<u>\$329,510,739</u>

<u>Liabilities and Equity</u>	
Common Equity	\$ 86,905,110
Preferred/Preference Stock	24,100,000
Long-Term Debt	108,963,565
Construction Trust Financing	11,211,612
Current and Accrued Liabilities	82,105,288
Deferred Credits	16,225,164
Total	<u>\$329,510,739</u>

According to the application, Southwest has need to periodically sell its securities in order to reduce or repay its short-term

borrowings and raise additional external capital funds for its construction program. Southwest also has need to maintain a strong and balanced capital structure. In order to accomplish this, Southwest believes it necessary at this time to sell up to \$12,500,000 of preferred or preference stock.

Southwest's construction budget expenditures are estimated to be \$50 million in 1981, and \$60 million in 1982, excluding certain major projects expected to be separately financed.

Southwest's capital structure on February 28, 1981, and as adjusted to give pro forma effect assuming (1) the sale of 300,000 shares of \$1 per value common stock at an assumed price of \$10 per share to produce net proceeds of \$3,000,000, authorized by Decision 93050 dated May 19, 1981, in Application 60421, and (2) \$12,500,000 proceeds from the issuance and sale of the proposed preferred or preference stock are as follows:

	<u>February 28, 1981</u>	<u>Pro Forma</u>
Short-Term Debt	6.2%	---%
Construction Trust Liability	4.6	4.6
Long-Term Debt	<u>44.2</u>	<u>44.2</u>
Total Debt	55.0	48.8
Preferred/Preference Stock	9.8	14.8
Common Stock Equity	<u>35.2</u>	<u>36.4</u>
Total	100.0%	100.0%

Southwest proposes alternatively, depending on market conditions, (1) to sell preferred stock by means of a private placement to certain institutional investors, the identities of which are not yet known, or (2) to sell its preference stock, which may or may not be convertible into common stock, by means of a public offering through an underwriter.

Southwest estimates that the sale of 125,000 shares of \$100 par value preferred stock or 625,000 shares of \$20 par value preference stock will result in net usable proceeds in excess of \$11,850,000, after deducting issuance expenses and underwriting commissions or placement fees. The dividend dates, dividend rates, redemption price, sinking funds, and conversion features (if any) on the preferred stock or preference stock have not yet been negotiated; however, these provisions will be submitted to the Commission prior to sale.

In support of its application, Southwest believes it prudent to maintain a strong and balanced capital structure. In order to accomplish this, Southwest believes it necessary to sell equity securities, including preferred or preference stock, periodically to supply the increments of capital needed to finance budgeted construction projects.

The Commission's Revenue Requirements Division has reviewed the application and Southwest's 1981 and 1982 construction program and has concluded that the estimated construction expenditures are reasonable. The Division has no objection to the proposed security issues 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, a California corporation, operates under the jurisdiction of this Commission.
2. The proposed sale of Southwest's preferred or preference shares of stock is for proper purposes.
3. The proposed issuance of 1,300,000 shares of common stock in the exercise of the convertible provisions to be negotiated in connection with the preference stock is not 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 sale of the preferred or preference stock, together with any common shares in the exercise of conversion rights negotiated is

reasonably required for the purposes specified. Proceeds from the security issue may not be charged to operating expenses or income.

6. There is no known opposition 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, we place Southwest and its shareholders on notice that the number of shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of Southwest's stock or property, nor does it indicate the amounts to be included in ratesetting proceedings.

The following order should be made effective on the date of signature to enable Southwest to expeditiously issue its stock.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation, on or after the effective date of this order may issue either 125,000 shares of its \$100 par value cumulative preferred stock, or 625,000 shares of its \$20 par value preference stock having conversion rights.

2. In the event preference stock having conversion rights is issued, Southwest Gas Corporation may issue up to 1,300,000 shares of its common stock in the manner and for the purpose set forth in the application.

3. Southwest Gas Corporation shall apply the net proceeds from the sale of its preferred stock or preference stock to the purposes set forth in the application.

4. Promptly after Southwest Gas Corporation ascertains the final terms and conditions for the sale of its cumulative preferred or preference stock, the company shall notify the Commission in writing of each of the following: The number of shares of each class issued, the aggregate amount, price and dividend rate, the redemption and sinking fund provisions (if any), the conversion provision, and the underwriting spread.

5. As soon as available, Southwest Gas Corporation shall file with the Commission three copies of its final prospectus pertaining to the stock issued and sold.

6. Southwest Gas Corporation shall file the reports required by General Order Series 24.

7. The authority granted by this order to issue stock will become effective when Southwest Gas Corporation pays \$2,100, the fee set by PU Code Section 1904.2. In all other respects this order becomes effective 30 days from today.

Dated JUN 16 1921, at San Francisco, California.

John E. Byrne  
President  
Robert W. Healy  
Thomas J. L...  
Arthur C. ...  
Lawrence C. ...  
Commissioners

PUBLIC UTILITIES COMMISSION  
STATE OF CALIFORNIA  
PAID  
00526  
JUN 22 1921  
\$ 217.50  
BY J. J. ...