

Decision \_\_\_\_\_

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Application of SOUTHWEST GAS CORPORATION (U905G) for Authority to: (I) Issue One or More Types of Debt Securities in the Principal Amount of up to \$500,000,000; (II) Issue up to 9,000,000 Shares of its \$1 Par Value Common Stock; (III) Refinance Previously Issued Short-Term Debt Securities; (IV) Refinance Previously Authorized Securities Under the Evergreening Authority Guidelines; and (V) Enter into One or More Interest Rate Risk Management Contracts.

Application 14-07-012  
(Filed July 22, 2014)

**DECISION AUTHORIZING SOUTHWEST GAS CORPORATION TO  
ISSUE UP TO \$315 MILLION OF NEW DEBT SECURITIES AND UP TO  
113,800 SHARES OF COMMON STOCK**

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**DECISION AUTHORIZING SOUTHWEST GAS CORPORATION TO  
ISSUE UP TO \$315 MILLION OF NEW DEBT SECURITIES AND UP TO  
113,800 SHARES OF COMMON STOCK**

**Summary**

This Decision grants Southwest Gas Corporation (Southwest Gas) the authority to issue up to \$315 million of new debt securities and up to 113,800 shares of its common stock. This Decision also authorizes Southwest Gas to: (a) issue short-term debt securities in excess of the 5 percent threshold provided in Pub. Util. Code § 823(c), up to \$150 million; (b) enter into debt enhancement features; (c) enter into interest rate risk management programs; (d) continue its authority to use debt enhancements and enter into interest rate risk management contracts subject to the restrictions and limitations set forth in the new Financing Rule; and (e) refinance previously authorized securities upon maturity, mandatory redemption, repurchase for mandatory sinking fund requirements, or upon optional refinancing, under the Commission's Evergreening Authority Guidelines,<sup>1</sup> through December 31, 2019.

**1. Background**

On July 22, 2014, Southwest Gas Corporation (Southwest Gas or applicant) filed Application (A.) 14-07-012 requesting authority to: (1) issue one or more types of debt securities in the principal amount of up to \$500,000,000; (2) issue up to 9,000,000 shares of its \$1 par value common stock; (3) refinance previously issued short-term debt securities; (4) refinance previously authorized securities under the Evergreening Authority Guidelines; and (5) enter into one or more interest rate risk management contracts.

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<sup>1</sup> See Decision (D.) 93-12-022, Appendix B, Item 8.

Notice of the application appeared in the Commission's Daily Calendar on July 24, 2014. No protests were filed.

On September 25, 2014, the assigned Administrative Law Judge (ALJ) issued a ruling directing Southwest Gas to submit additional information which Southwest Gas provided in its response filed on October 9, 2014. On January 15, 2015, the assigned ALJ issued a ruling directing Southwest Gas to provide additional information regarding computation of the amount of financing authority being requested. Southwest Gas filed its response on January 29, 2015, and provided a revised computation of its cash requirements for the three-year period 2014 to 2016. Southwest Gas revised the amount of financing authority being requested from \$500 million of new debt securities and 9 million shares of common stock, to \$315 million of new debt securities and 113,800 shares of common stock.

## **2. Request**

Based on its revised request, Southwest Gas seeks authorization to issue up to \$315 million of new debt securities and 113,800 shares of common stock at approximately \$55 each, or \$6.259 million in aggregate value. The new debt securities and common stock are in addition to previously authorized amounts, to meet Southwest Gas' financing needs based on a long-term forecast covering the three-year period 2014 through 2016. Southwest Gas also requested authority to refinance previously issued short-term debt securities, refinance previously authorized securities under the Commission's Evergreening Authority Guidelines, and enter into one or more interest rate risk management contracts.

Southwest Gas originally requested financing authority to issue up to \$500 million of new debt securities and up to 9 million shares of common stock. However, in its January 29, 2015, response to an ALJ ruling, the amount

requested was revised and the current request of \$315 million of new debt securities and 113,800 shares of common stock.

Southwest Gas requested authority to issue short-term debt securities in excess of the threshold provided in § 823(c)<sup>2</sup> or up to \$150 million. Based on its total capitalization, Southwest Gas only has authority to issue up to \$70.838 million of short-term debt.

### **2.1. Debt Securities**

Southwest Gas indicates that it intends to issue, without limitation, debt securities such as: bonds; debentures; notes; capital leases; accounts receivable financing; loans, private placement indebtedness; and other floating rate debt. The principal amount, timing, market, method of issuance, terms and provisions, price, interest rate, and form of each series of debt securities will be determined by Southwest Gas according to market conditions at the time of sale.

Debt obligations may be issued directly as debentures, notes, bonds, loans, or other evidences of indebtedness which may include, without limitation, commercial paper programs, extendible commercial notes, bank loans, capital leases, accounts receivable financings, private placements with insurance companies or other lenders, bankers' acceptances, or other variable-rate or fixed-rate borrowing instruments which are or may become available in the

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<sup>2</sup> Pub. Util. Code § 823(c) provides that "Notwithstanding the provisions of subdivision (b), no public utility as defined in Section 201(e) of the Federal Power Act, shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes on which such utility is primarily or secondarily liable would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for the purposes of this subsection shall be the fair market value as of the date of the issue."

capital markets. Such debt obligations may also be issued indirectly through one or more governmental agencies or quasi-governmental agencies and loaned to Southwest Gas. Each financing will be issued through the use of an indenture, bidding and offering document, purchase agreement, loan agreement, underwriting agreement, or other documents and instruments customary for the financing method selected by Southwest Gas. Southwest Gas may also issue or borrow proceeds of securities by guaranteeing the obligations of governmental agencies.

Southwest Gas intends to apply the net proceeds from the issuance of additional debt to: (i) acquire property; (ii) construct, complete, extend, or improve its facilities; (iii) refund maturing debt; (iv) fund payments or redemption requirements of debt (including any premiums required in connection therewith); (v) retire (through defeasance or otherwise), refinance, or exchange existing short- and long-term debt (including any premiums required in connection therewith); and (vi) reimburse its Treasury for monies actually expended from income or from any other money in its Treasury not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidence of indebtedness for expansion and betterment of its facilities, with the amounts so reimbursed becoming part of Southwest Gas' general Treasury funds.

## **2.2. Common Stock**

Based on its revised request, Southwest Gas also seeks authority to obtain additional capital by the issuance and sale of up to 113,800 shares of its \$1 par value common stock. Each share has an estimated average price of \$55 per

share<sup>3</sup> which results in an aggregate value of \$6.259 million. Southwest Gas plans to issue its common stock from time to time through one or more public or private offerings or through its existing Benefit Plans.<sup>4</sup> Offer and sale of common stock through the company's Benefit Plans will also take into consideration the number of shares necessary to continue said plans.

Southwest Gas plans to issue and sell its common stock through public or private sales. The issuance and sale may be registered or exempt from registration under the Securities Act of 1933, and may be underwritten or made on a best-efforts or other basis. Sale may be made by means of a private placement, by registered underwritten public offerings, at market, or through its previously approved Benefit Plans. Sale may be made at any time or from time to time, as the case may be, and may be made in connection with sales of debt or preferred securities. The precise number and timing of each offering and sale is to be determined by Southwest Gas with due regard to its financial condition, capital requirements, and the then-prevailing and anticipated market conditions.

The offer and sale of common stock will generally be made through the use of purchase agreements, underwriting agreements, Benefit Plans, sales agreements, or other documents customarily used for the issuance of common stock. The common stock may be issued with warrants or rights to purchase additional shares of preferred securities or common stock of Southwest Gas.

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<sup>3</sup> The company utilized an estimated price per share of \$55 for its common stock. However, as of September, 2014, the company's common stock price over the past three years had a trading range of \$34.55 to \$56.03.

<sup>4</sup> Such plans include the company's previously approved Stock Purchase Plan, Employees Investment Plan, Management Incentive Plan, 1996 Stock Incentive Plan, and Dividend Reinvestment Plan.

**2.3. Debt Enhancement Features**

Southwest Gas requests authority to include certain debt enhancement features in its debt securities and to enter into interest rate risk management contracts. Southwest Gas also requests that such authority not be considered as additional debt for purposes of calculating the amount of authorization used, since the use of such authority would not increase the amount of the underlying or related securities issued or to be issued.

Debt enhancement features requested by Southwest Gas can consist of the following forms: a) put options; b) call options; c) sinking funds; d) delayed drawdowns; e) credit enhancement arrangements; f) interest rate swap agreements; g) interest rate cap, floor, and collar agreements; and h) special-purpose entity transactions.

Interest rate risk management contracts requested by Southwest Gas include such arrangements as: a) Treasury lock, cap, and collar agreements; b) forward starting interest rate swaps; and c) forward starting swaptions.<sup>5</sup>

**3. Discussion****3.1. Public Utilities Code Requirements for Issuance of Securities**

Southwest Gas's request to issue debt securities and common stock is subject to Pub. Util. Code §§ 816, 817, and 818. The Commission has broad discretion under § 816 et seq. to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the Commission may attach

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<sup>5</sup> A swaption is an option to enter into an interest rate swap. In exchange for an option premium, a buyer gains the right to enter into a specified swap agreement with the issuer on a specified future date.

conditions to the issuance of debt and stock to protect and promote the public interest.

Pursuant to Pub. Util. Code § 817, a public utility may only issue and use financing for selected purposes.<sup>6</sup> Those purposes not listed in Pub. Util. Code § 817 may only be paid with funds from normal utility operations. Southwest Gas proposes that it will use approximately \$321.259 million worth of new financing to: 1) acquire property; 2) construct, complete, extend or improve its facilities; 3) refund maturing debt; 4) fund payments of redemption requirements of debt including premiums required in connection therewith; 5) retire, refinance or exchange existing short-term and long-term debt including any premiums

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<sup>6</sup> See Section 817 which provides:

A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

- (a) For the acquisition of property.
- (b) For the construction, completion, extension, or improvement of its facilities.
- (c) For the improvement or maintenance of its service.
- (d) For the discharge or lawful refunding of its obligations.
- (e) For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.
- (f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.
- (g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.
- (h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

required in connection therewith; and 6) reimburse its treasury for monies actually expended from income or from any other money in its treasury not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidence of indebtedness for expansion and betterment of its facilities.

Pub. Util. Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Pub. Util. Code § 818 also requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income. Southwest Gas purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. Southwest Gas has substantiated that its need for issuance of new debt securities and common stock are necessary and are for proper purposes.

Since Southwest Gas's request is in compliance with Pub. Util. Code § 816 et seq., we grant it authority to issue new debt securities and common stock for the aforementioned purposes and terms, and for the amounts determined in the order of this decision. Those purposes not listed in Pub. Util. Code § 817 may only be paid with funds from normal utility operations.

In general, each series of long-term and medium-term debt securities issued pursuant to Pub. Util. Code § 817 must have a term of greater than 12

months. Southwest Gas may, however, issue short-term debt securities that have a maturity of 12 months or less within the parameters of Pub. Util. Code § 823(c).

In its October 9, 2014 response, Southwest Gas requested authority to issue short-term debt securities in excess of the threshold provided in § 823(c) or up to \$150 million. In its capitalization schedule, Southwest Gas has shown that it projects to require the issuance of short-term debt of \$119.917 million in December 2015, and \$104.367 million in January 2016. Based on its total capitalization, Southwest Gas only has authority to issue up to \$70.838 million of short-term debt. We find that the request for authorization to issue up to \$150 million of short-term debt is reasonable in this specific instance, and grant the request. The Commission recognizes the need to allow utilities flexibility in specific instances, to issue short-term debt in excess of the 5 percent threshold provided in § 823(c), and has granted utilities authority to do so in prior instances. This grant of authority to issue short-term debt up to \$150 million is only authorized for the period covered in this application, which is from 2014 to 2016. If Southwest Gas requires further authorization to exceed the short-term debt threshold provided in § 823(c), then it can request to do so and provide adequate justification at that time.

### **3.2. Forecast of Sources and Uses**

Applications for authorization to issue debt and other securities are in part, based on forecasted sources and uses of funds that demonstrate the need for the requested funding.

As part of its application, Southwest Gas provided a forecast of its sources and uses covering the three-year period of 2014-2016. Southwest Gas also provided the aggregate financing authority available from previous decisions, but forecast that it expects to consume these amounts to meet its financial needs

for the remainder of 2014. We rely on Southwest Gas' forecast set forth in Table I below to determine the forecast of sources and uses for the three-year period of 2014 to 2016.

**Table 1: Statement of Cash Requirements 2014-2016**

<b>Use of Funds</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>Total</b>
Funds used or required for construction expenses	\$371,862,000	\$404,932,000	\$340,127,000	\$1,116,921,000
Maturities, refinancings, and redemptions	\$65,000,000	\$0	\$0	\$65,000,000
Contingent liabilities <sup>7</sup>	\$0	\$94,014,000	\$94,014,000	\$188,028,000
<b>Total Uses of Funds</b>	<b>\$436,862,000</b>	<b>\$498,946,000</b>	<b>\$434,141,000</b>	<b>\$1,369,949,000</b>
Less estimated cash available from internal sources	\$310,032,000	\$231,115,000	\$85,127,000	\$626,274,000
Additional new funds required from outside sources	\$126,830,000	\$267,831,000	\$349,014,000	<b>\$743,675,000</b>
<b>Less current financing authority</b>				
	Stock \$237,416,000	Debt Capital \$185,000,000	Debt and Stock Total \$422,416,000	
<b>Total new additional financing authority required</b>	Stock \$6,259,000	Debt Capital \$315,000,000	Debt and Stock Total <b>\$321,259,000</b>	

A review of the information provided shows that the forecasted sources and uses for 2014 to 2016, is \$321.259 million. The amount of new financing being requested is \$315 million plus 113,800 shares of common stock at approximately \$55 each or \$6.259 million in aggregate value. The total value of

<sup>7</sup> Southwest Gas has the ability to recall up to \$376.055 million of long-term debt in 2015 and 2016. The contingent liability amount reflects 50% of what Southwest Gas can recall, as the economics to recall will be a function of future interest rates and capital market conditions.

new debt securities and common stock being requested is \$321,259,000. The sources and uses table above shows that the projected expenditure for 2014-2016 equals the amount of new financing being requested, taking into account internal cash sources and any remaining financing authority from prior applications.

The Commission finds it reasonable to authorize Southwest Gas to issue up to \$315 million of new debt securities and up to 113,800 shares of new common stock worth approximately \$6.259 million. The new financing will allow Southwest Gas to fund its capital expenditure plans for the three-year period of 2014-2016, and for the other proper purposes discussed in Section 3 of this decision, to the extent authorized by Pub. Util. Code § 817(h). The Commission finds Southwest Gas's request to be reasonable and supported by the record.

A grant of financing authority to a utility does not obligate the Commission to approve capital projects to be conducted by the utility. This financing authority is limited to providing Southwest Gas with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury for the three-year period of 2014 to 2016. Review of the reasonableness of capital projects will occur as needed through the regulatory process applicable to each capital project. Approval of this financing request does not prejudice any of Southwest Gas's capital projects and forecasted capital projects for the three-year period of 2014 to 2016.

#### **4. Types of Securities to be Issued**

Southwest Gas requests to issue new debt securities, described in Section 3 of this Decision, similar to those types of debt securities authorized in

D.10-10-002.<sup>8</sup> Therefore, we will authorize Southwest Gas to issue the specific types of Debt Securities detailed in Section 2 of this Decision, and enumerated in the order herein. Also consistent with § 824, Southwest Gas must maintain records to identify the specific securities issued pursuant to this decision, and demonstrate that proceeds from such securities have been used only for public utility purposes.

Southwest Gas also proposed to issue new common stock described in Section 3 of this decision similar to the type of common stock authorized in D.10-10-002. We likewise authorize Southwest Gas to issue the requested 113,800 shares of common stock detailed in Section 2 of this decision and enumerated in the order herein.

## **5. Debt Enhancements**

Southwest Gas requests authority to include certain debt enhancement features in the issuance of its debt securities and to enter into interest rate risk management contracts. The specific debt enhancement features and types of interest management contracts are described in Section 2 of this decision. Southwest Gas also requests that such authority not be considered as additional debt for purposes of calculating the amount of authorization used.

The Commission has previously given Southwest authority to use similar debt enhancements and to enter into interest rate risk management contracts similar to those being requested and did not consider them as additional debt for purposes of calculating the amount of authorization used.<sup>9</sup>

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<sup>8</sup> See D.10-10-022 issued on October 28, 2010.

<sup>9</sup> See D.10-10-022 at OP 7-8.

We will once again grant Southwest Gas authority to use these previously approved forms of debt enhancement features and interest rate risk management contracts. These are designed to improve the terms and conditions of debt securities and to lower Southwest Gas' overall cost of financing. We will also not consider these debt enhancement features and interest rate risk management contracts as additional debt for the purpose of calculating the amount of authorization used since the use of such would not increase the amount of the underlying securities to be issued.

#### **6. Utility Long-Term Debt Financing Rule**

On June 7, 2012, the Commission adopted the Utility Long-Term Debt Financing Rule (Financing Rule) in D.12-06-015, replacing the Competitive Bidding Rule that applied to the issuance of debt securities.

In accordance with the Financing Rule, Southwest Gas intends to:

a) prudently issue debt consistent with market standards with the goal of achieving the lowest long-term cost of capital for ratepayers; b) determine the financing term of its debt issues with due regard for its financial condition and requirements; c) use its best efforts to encourage, assist, and include women, minority, and service disabled veteran business enterprises in various types of underwriting roles on debt securities offerings; d) utilize debt security enhancements only in connection with debt securities financings; and e) adhere to the Financing Rule's restrictions on the use of swap and hedging transactions.

We require Southwest Gas to comply with the uniform limitations and conditions established for utilities in the new Financing Rule set forth in D.12-06-015. In addition, we also require Southwest Gas to comply with the restriction concerning variable-rate exposure set forth in D.10-10-022, which was not addressed by the new Financing Rule. Southwest Gas's variable-rate

exposure (unhedged variable rate debt and fixed to floating rate risk management contracts) should not exceed 35 percent of the total debt outstanding.

## **7. Evergreening Authority**

Evergreening Authority provides a utility pre-authorization to issue long-term debt securities or equity securities for the purpose of refinancing/refunding/replacing authorized securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing to reduce financing costs. Amounts issued for the purposes listed above are not considered new issuances and are not charged against Commission authorizations to issue new securities.<sup>10</sup> Evergreening Authority is not intended to facilitate changes in a utility's capital structure, to finance underlying assets, or to expand the permitted uses of proceeds. Pursuant to the Evergreening Authority, debt securities may be only be replaced with other debt securities, preferred stock with other preferred stock, and common stock with other common stock.

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<sup>10</sup> See D.93-12-022, Appendix B, Item 8 "Issuance of securities for optional refinancing of existing securities shall be permitted under the evergreen authorization only if the average annual effective cost of the new securities over their life, including the impact of any refinancing premiums or discounts, is less than the average annual effective cost of the refinanced securities over their remaining life. If more than one series of securities is being issued or replaced, average annual effective cost shall be calculated on a weighted basis (i.e., adjusted to reflect the respective aggregate principal amounts or par values of the different series of securities). This provision shall not apply to refinancing of securities upon maturity, mandatory redemption, or mandatory repurchase to fulfill sinking fund requirements. The grant of evergreen authorization does not constitute Commission pre-approval of the cost of money resulting from specific financing transactions, and the Commission retains the right to review the reasonableness of any such transactions in subsequent ratemaking proceedings."

Evergreening Authority is intended to limit or eliminate the need for multiple Commission approvals in cases when a public utility, having authority to do so, wants to issue securities for the retirement, or in exchange for, one or more outstanding securities. Once the Commission has authorized the issuance of securities, the issuing utility could redeem, repurchase, or roll over those securities at maturity, without further Commission action and without having to deduct the newly issued amounts (including any redemption premiums) from the balance remaining from amounts authorized by the Commission.

Southwest Gas requests that the Evergreening Authority authorized in D.10-03-022, be extended through December 31, 2019. Southwest Gas anticipates that the Evergreening Authority would apply to its long-term debt and preferred securities and that it will refinance, refund, or replace authorized securities at maturity or refinance before maturity if favorable market conditions exist.

Pursuant to the Evergreening Authority granted by the Commission since 1994, Southwest Gas refinanced \$1.706 billion of existing securities. \$921 million involved refinancings of matured debt while \$785 million involved optional refinancings, which have resulted in savings of approximately \$3.9 million.

Granting Southwest Gas's request for a renewal of its Evergreening Authority will provide the utility with greater timing flexibility to take advantage of low interest rates and market opportunities to refinance existing securities and issue new securities when maturities occur, without having to utilize new financing authority or require the filing of a new financing application. Southwest Gas has shown that its Evergreening Authority has resulted in savings for its customers. Also, Southwest Gas's request for renewal

of its Evergreening Authority is in compliance with the terms and conditions of the Evergreening Guidelines.<sup>11</sup> The five-year renewal period being requested is in compliance with the Evergreening Guidelines which provides that such renewal be for a period of not more than five years.

We will, therefore, grant Southwest Gas Evergreening Authority for long-term debt securities, preferred stock, and common stock subject to the Guidelines authorized by D.93-12-022, until December 31, 2019. Southwest Gas must also file with the Commission, all activity under the Evergreening Authority consolidated and concurrent with the filing of its reports under General Order (GO) 24-C.

### **8. Reporting Requirement**

GO 24-C<sup>12</sup> requires utilities to submit a semi-annual report to the Commission showing receipts and disbursements from the sale of stocks, bonds and other evidences of indebtedness which the utility has been authorized to issue. The report contains, among other things, the following information: (a) the amount of debt issued by the utility during the previous six-month period; (b) the total amount of debt outstanding at the end of the six-month period; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior six-month period; and (d) a statement covering the last six-month period, of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

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<sup>11</sup> See D.93-12-022 at Appendix B, Item (4).

<sup>12</sup> See General Order No. 24-C. <http://www.cpuc.ca.gov/PUC/documents/go.htm>

Southwest Gas provided that it will comply with the securities issuance reporting requirements as defined in GO 24-C.

**9. Fee**

Whenever the Commission authorizes a utility to issue debt securities and stock, the Commission is required to charge and collect a fee pursuant to Pub. Util. Code §§ 1904(b) and 1904.1. In the case of Southwest Gas however, since only part of its operations are in California, the Commission requires it to pay a fee only on the portion of securities authorized in a particular Decision, that are attributable to California.<sup>13</sup> This portion is determined by applying the ratio of California operating revenues as a percent of total company revenues to the total securities authorized in a particular Decision.

The fee for the current application is calculated as follows:

**Table 2: Calculation of Fee**

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<sup>13</sup> See D.07-09-007 at 26-27; D.05-02-049 at 27; D.88-12-010 at 2 and 8-9; and D.10-10-022 at 17.

Line	Description	Amount
A	Total operating revenues	\$1,313,067,000
B	Total operating revenues in California	\$147,557,000
C	Percentage of California revenues to total revenues (line b divided by line a)	11.2375%
D	Amount of financing authority requested (debt securities and common stock)	\$321,259,000
E	Amount of financing authority attributable to California operations (line d multiplied by line c)	\$36,101,480
<b>Calculation of fee (for \$36,101,480)</b>		
G	\$2 x (\$1,000,000/1,000)	\$2,000
H	\$1 x (\$9,000,000/1,000)	\$9,000
I	\$0.50 x (\$26,101,480/1,000)	\$13,050.74
	Total fee (line g + h + i)	\$24,050.74

Since Southwest Gas has already paid a fee of \$61,906.98, the authority granted by this order will become effective as of the date of this decision. Southwest Gas is also entitled to a refund of \$37,856.24 which represents the difference between the required filing fee and what Southwest has paid.<sup>14</sup>

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<sup>14</sup> The reason for the overpayment was because Southwest Gas initially requested authority to issue up to \$995 million of new financing authority and computed the filing fee based on this amount. The request was later reduced to \$321.259 million resulting in a \$24,050.74 filing fee instead.

**10. Financial Information**

The Commission places Southwest Gas on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of debt securities and preferred or preference stock as well as capital structures, are normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, the Commission will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money.

The Commission also does not make a finding in this decision on the reasonableness of Southwest Gas's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in a general rate case or specific application. The authority to issue debt securities and common stock is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

**11. California Environmental Quality Act**

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.<sup>15</sup> Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any

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<sup>15</sup> Public Resource Code Section 21080(b)(8).

specific project which may result in a potentially significant impact on the environment is not a “project” subject to CEQA.<sup>16</sup>

This decision does not authorize any capital expenditures or construction projects. Construction projects which Southwest Gas may finance pursuant to the authority granted by this decision must undergo CEQA review as required by CEQA Guidelines Section 4004(b).

## **12. Categorization and Need for Hearings**

Resolution ALJ 176-3340 was issued on August 14, 2014, whereby the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that no hearings were needed. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

## **13. Waiver of Comment Period**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment is waived.

## **14. Assignment of Proceeding**

Carla J. Peterman is the assigned Commissioner and Rafael L. Lirag is the assigned ALJ in this proceeding.

## **Findings of Fact**

1. Southwest Gas initially requested financing authority to issue up to \$500 million of new debt securities and up to 9 million shares of common stock worth approximately \$495 million.

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<sup>16</sup> CEQA Guidelines Section 15378(b)(4).

2. In its response dated January 29, 2015, Southwest Gas reduced its requested financing authority to \$315 million of new debt securities and 113,800 shares of common stock worth approximately \$6.259 million.

3. Based on its forecast of sources and uses for 2014 to 2016, the requested financing authority of \$321.259 million of new debt securities and new common stock is necessary to provide the external funding required to meet Southwest Gas's projected cash requirements for 2014 to 2016.

4. Southwest Gas's internal cash resources and remaining financing authority were taken into account in determining the amount of new financing authority needed for 2014 to 2016.

5. Southwest Gas has no plans to utilize preferred equity as a financing source for 2014 to 2016.

6. Pub. Util. Code § 823(c) requires that total short-term debt issued by a utility not exceed 5 percent of the par value of the other securities of that utility then outstanding, unless the Commission has authorized such.

7. Southwest Gas demonstrated that it requires the issuance of short-term debt in excess of the 5 percent threshold provided in Pub. Util. Code § 823(c), and requested authorization to issue up to \$150 million in short-term debt.

8. The proposed new financing requested by Southwest Gas and the associated money, property, or labor to be procured or paid for with the proceeds of this proposed new financing, are, pursuant to Pub. Util. Code §§ 817 and 818, reasonably required for proper purposes, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

9. The authorizations for the types of new securities, securities enhancement features, and other finance related requests herein are substantially similar to

those requested by Southwest Gas in A.10-04-008, and decided by the Commission in D.10-10-022 issued on October 28, 2010.

10. On June 7, 2012, the Commission adopted the new Financing Rule in D.12-06-015, replacing the Competitive Bidding Rule that applied to the issuance of debt securities.

11. Southwest Gas intends to comply with the requirements of the Financing Rule.

12. Evergreening Authority Guidelines were originally authorized for Southwest Gas in D.93-12-022.

13. Southwest Gas requested an extension of its Evergreening Authority until December 31, 2019.

14. The request for extension as well as the period requested, are in compliance with the Evergreening Authority Guidelines.

15. The reasonableness of Southwest's construction budget, cash requirements forecast, and capital structure for ratemaking purposes is reviewed and authorized in GRC or cost of capital proceedings.

16. GO 24-C requires utilities to submit a semi-annual report to the Commission containing, among other things: (a) the amount of debt issued by the utility during the previous six-month period; (b) the total amount of debt outstanding at the end of the six-month period; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior six-month period; and (d) a statement covering the last six-month period, of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

17. This application does not propose, and today's decision does not authorize, any specific new construction or changes in use of existing assets and facilities.

18. Pursuant to Pub. Util. Code §§ 1904(b) and 1904.1, and after application of the ratio of California operating revenues as a percent of total company revenues, the required fee for this application is \$24,050.74.

19. Southwest Gas paid a fee of \$61,906.98, and is entitled to a refund of \$37,856.24.

20. Notice of A.14-07-012 appeared in the Commission's Daily Calendar on July 24, 2014, and no protests have been filed.

21. In Resolution ALJ 176-3340 issued on August 14, 2014, the Commission preliminarily determined that A.14-07-012 be categorized as ratesetting and that hearings would not be necessary.

### **Conclusions of Law**

1. Southwest Gas should be granted authority to issue new debt securities up to \$315 million.

2. Southwest Gas's proposed new financing authority and the use of the proceeds from that authority, are for proper purposes and consistent with the requirements of Pub. Util. Code §§ 817 and 818.

3. Southwest Gas should be granted authority to issue debt securities such as: bonds; debentures; notes; capital leases; accounts receivable financing; loans, private placement indebtedness; and other floating rate debt.

4. Southwest Gas Corporation should be authorized to issue directly, debt obligations such as debentures, notes, bonds, loans, or other evidences of indebtedness which may include, without limitation, commercial paper programs, extendible commercial notes, bank loans, capital leases, accounts receivable financings, private placements with insurance companies or other lenders, bankers' acceptances, or other variable-rate or fixed-rate borrowing instruments which are or may become available in the capital markets. Such debt obligations may also be issued indirectly through one or more governmental agencies or quasi-governmental agencies and loaned to Southwest Gas Corporation.

5. Southwest Gas should be granted authorization to issue short-term debt in excess of the 5 percent threshold provided in Pub. Util. Code § 823(c), or up to \$150 million, from 2014 to 2016.

6. Southwest Gas Corporation should be granted authority to issue 113,800 shares of its common stock through public or private sales or through its previously approved Benefit Plans.

7. Southwest Gas Corporation should be granted authority to use the following kinds of debt enhancement features: a) put options; b) call options; c) sinking funds; d) delayed drawdowns; e) credit enhancement arrangements; f) interest rate swap agreements; g) interest rate cap, floor, and collar agreements; and h) special-purpose entity transactions.

8. Southwest Gas Corporation should be granted authority to enter into the following interest rate risk management contracts: a) Treasury lock, cap, and collar agreements; b) forward starting interest rate swaps; and c) forward starting swaptions.

9. Southwest Gas Corporation should be authorized to exclude the authorized debt enhancement features and interest rate risk management contracts for purposes of calculating its total financing authorized herein.

10. Southwest Gas Corporation should comply with the restrictions and limitations set forth in the Utility Long-Term Debt Financing Rule with respect to issuing debt enhancements and entering into interest rate risk management contracts.

11. Southwest Gas should comply with the restriction concerning variable-rate exposure set forth in D.10-10-022. Southwest Gas' variable-rate exposure (unhedged variable rate debt and fixed to floating rate risk management contracts) should not exceed 35 percent of the total debt outstanding.

12. Southwest Gas Corporation should be authorized to use Evergreening Authority for debt securities, preferred stock, and common stock, subject to the Evergreening Authority Guidelines authorized by D.93-12-022, from the date of this decision until December 31, 2019.

13. Authority to enter into the debt enhancements authorized herein should be granted to Southwest Gas, only in connection with actual, pending or planned issues of debt securities authorized herein.

14. Granting of financial authority to a utility does not obligate the Commission to approve any capital projects.

15. Review of the reasonableness of capital projects will occur as needed through the regulatory process applicable to each capital project.

16. Approval of this financing request should not prejudice any of Southwest Gas's forecasted capital projects for the period 2014 through 2016.

17. Southwest Gas should report on a semi-annual basis, all the information required by GO 24-C with respect to debt issued pursuant to this decision.

18. Southwest Gas should pay a fee only on the portion of newly authorized securities that are attributable to California.

19. The authority granted by this order should become effective as of the date of this decision because Southwest Gas has already paid the fee pursuant to §§ 1904(b) and 1904.1.

20. Southwest Gas is entitled to a refund of \$37,856.24, which is the excess amount of the fee it paid pursuant to §§ 1904(b) and 1904.1.

21. A.14-07-012 should be closed.

### **ORDER**

#### **IT IS ORDERED** that:

1. Southwest Gas Corporation is authorized to issue new debt securities in the amount of \$315 million.

2. Southwest Gas Corporation is authorized to issue new debt securities in the form of: bonds; debentures; notes; capital leases; accounts receivable financing; loans, private placement indebtedness; and other floating rate debt.

3. Southwest Gas Corporation is authorized to issue directly, debt obligations such as debentures, notes, bonds, loans, or other evidences of indebtedness which may include, without limitation, commercial paper programs, extendible commercial notes, bank loans, capital leases, accounts receivable financings, private placements with insurance companies or other lenders, bankers' acceptances, or other variable-rate or fixed-rate borrowing instruments which are or may become available in the capital markets. Such debt obligations may also be issued indirectly through one or more governmental agencies or quasi-governmental agencies and loaned to Southwest Gas Corporation.

4. Southwest Gas is authorized to issue short-term debt in excess of the 5 percent threshold provided in Pub. Util. Code § 823(c), or up to \$150 million total, from 2014 to 2016.

5. Southwest Gas Corporation is authorized to issue 113,800 shares of its common stock through public or private sales or through its previously approved Benefit Plans. The issuance and sale may be registered or exempt from registration under the Securities Act of 1933, and may be underwritten or made on a best-efforts or other basis.

6. Southwest Gas Corporation is granted authority to use the following kinds of debt enhancement features: a) put options; b) call options; c) sinking funds; d) delayed drawdowns; e) credit enhancement arrangements; f) interest rate swap agreements; g) interest rate cap, floor, and collar agreements; and h) special-purpose entity transactions.

7. Southwest Gas Corporation is granted authority to enter into the following interest rate risk management contracts: a) Treasury lock, cap, and collar agreements; b) forward starting interest rate swaps; and c) forward starting swaptions.

8. Southwest Gas Corporation is authorized to exclude the authorized debt enhancement features and interest rate risk management contracts for purposes of calculating its total financing authorized herein.

9. Southwest Gas Corporation must comply with the restrictions and limitations set forth in the Utility Long-Term Debt Financing Rule adopted in Decision 12-06-015, with respect to issuing debt enhancements and entering into interest rate risk management contracts.

10. Southwest Gas must comply with the restriction concerning variable-rate exposure set forth in Decision 10-10-022. Southwest Gas' variable-rate exposure

(unhedged variable rate debt and fixed to floating rate risk management contracts) shall not exceed 35 percent of the total debt outstanding.

11. Southwest Gas Corporation is authorized to use Evergreening Authority for debt securities, preferred stock, and common stock, subject to the Evergreening Authority Guidelines authorized by Decision 93-12-022, from the date of this decision until December 31, 2019.

12. Southwest Gas Corporation must file with the Commission on a semi-annual basis, a statement containing all activity under the Evergreening Authority granted herein. This statement should be consolidated with its reports under General Order 24-C.

13. Southwest Gas Corporation must report on a semi-annual basis all the information required by General Order 24-C with respect to debt issued herein.

14. Southwest Gas Corporation may not use the proceeds from the debt authorized by this decision to fund its capital projects until Southwest Gas Corporation has obtained all required Commission approvals for the projects, including all required environmental review under California Environmental Quality Act.

15. Southwest Gas Corporation must comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs financed, in whole or in part, with the proceeds from the debt securities authorized by this decision.

16. The authority granted by this order should become effective as of the date of this decision because Southwest Gas has already paid the fee pursuant to §§ 1904(b) and 1904.1.

17. Within 30 days of this decision, the Commission's Fiscal Office shall refund \$37,856.24 of the application fee to:

Southwest Gas Corporation  
5241 Spring Mountain Road  
Las Vegas, Nevada 89193-8510

18. Application 14-07-012 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.