Decision 07-09-007 September 6, 2007

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of SOUTHWEST GAS CORPORATION (U-905-G) for authority to: (i) issue one or more types of Debt Securities in the principal amount of up to $300,000,000; (ii) issue up to 5,000,000 shares of its $1 par value Common Stock; (iii) refinance previously issued short-term debt securities; (iv) enter into one or more interest rate risk management contracts.	Application 06-11-002 (Filed November 7, 2006)

OPINION AUTHORIZING THE ISSUANCE OF DEBT AND COMMON STOCK

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OPINION AUTHORIZING THE ISSUANCE OF DEBT AND COMMON STOCK

1. Summary

This decision grants Southwest Gas Corporation (Southwest) the authority requested in Application (A.) 06-11-002 (Application).

Southwest requests authority, pursuant to Pub. Util. Code §§ 816 through 830[1] and § 851 for the following:

1. Obtain debt capital in an aggregate amount, not to exceed $300,000,000, through the direct issuance of one or more types of indebtedness, including, without limitation, the issuance and sale of debentures, bonds, notes, medium-term notes, bank loans, capital leases, accounts-receivable financings, private placement, commercial paper programs, extendible commercial notes, bankers' acceptances, and other short-term instruments which are or may become available in the capital markets or indirectly through governmental agencies.
2. Obtain new equity capital through the issuance and sale of up to 5,000,000 shares of its $1 par value common stock.
3. Refinance, refund, or replace its current level of short-term debt securities through the issuance and sale of authorized debt securities.
4. Enter into one or more arrangements to manage interest rate risk associated with Applicant's outstanding and future debt, including, without limitation, interest rate swaps, caps, floors, collars, or similar interest rate management methods.
5. Be exempt from the Commission's Competitive Bidding requirements.
6. Issue secured debt securities.

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[1] All statutory references are to the Public Utilities Code unless otherwise indicated.

7. Use a subsidiary or affiliate to issue debt securities and to unconditionally guarantee or otherwise secure such issuance, provided that the proceeds from such issuance are used by Southwest for the purposes delineated in §§ 817, 822 and 823 to support its utility operations or service.

Southwest also requests that the authority requested in the Application remain effective until it is fully utilized.

The authorization requested in this Application is in addition to the unused authority granted by Decision (D.) 00-09-009 (as amended by D.00-09-053), D.00-11-034, and D.05-02-049, with authority to enter into interest rate risk management contracts subject to the restrictions and limitations set forth in D.05-02-049.

Southwest proposes to use the proceeds from the issuance of debt and equity securities for purposes allowed under § 817 and § 823, including: acquiring property; constructing, completing, extending, or improving its facilities; refunding maturing debt and preferred securities; fund payments or redemption requirements of debt and preferred securities; retiring or refinancing existing securities and short- and long-term debt; and reimbursing its treasury for monies expended for the expansion and betterment of its facilities.

2. Background

Southwest, a California Corporation, is a public utility under the jurisdiction of this Commission. Southwest is primarily engaged in the business of distributing and selling natural gas in certain portions of San Bernardino, El Dorado, Placer and Nevada Counties, California. Southwest is also engaged in the intrastate transmission, sale and distribution of natural gas as a public utility in certain portions of the states of Nevada and Arizona, and is a "natural gas company," within the meaning of the Natural Gas Act, subject to the jurisdiction of the Federal Energy Regulatory Commission with respect to interstate transmission facilities in Nevada.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 14, 2006. Southwest filed amendments to its application, including supplemental information about its requests, on March 19, 2007, and May 7, 2007. No protests have been received.

2.1 Southwest's Current Financing Authorities

Southwest has previously issued debt and equity securities authorized by this Commission. The most recent financing authorizations are as follows:

Decision (D.) No.	Authority/Type	Remaining Authority
D.00-09-009 amended by D.00-09-053	$136,000,000 Debt Securities $80,000,000 Preferred Securities 4,234,800 shares of $1 Common	zero $80 million zero
D.00-11-034	$84,280,000 Debt Securities $60,000,000 Preferred Securities 4,765,200 shares of $1 Common	zero $60 million 1,620,736 shares
D.05-02-049	$415,000,000 Debt Securities 4,000,000 shares of $1 Common	$85,000,000 4,000,000 shares
D.02-04-054 amended by D.02-04-072	$550,000,000 Debt Securities	zero
D.94-12-018 as extended by D.00-09-009 and D.05-02-049	Evergreening Authority	Expiring December 31, 2009

The authorization requested in the Application is in addition to the unused authority shown above. Southwest's external funding requirements will be discussed later under the Funds from Outside Sources section of this decision.

3. Request

3.1 Issuance of Debt Securities

Southwest proposes to issue debt securities in an aggregate amount of up to $300,000,000, in one or more of the forms outlined below. Southwest requests that the precise amount and timing of each type of debt obligation; the market in, and the method by, which it will be issued; and the terms and provisions, price, and interest rate (which may be fixed, adjustable, variable or set by auction, remarketing, or other rate setting procedures) be determined by Southwest, with due regard for its financial condition and requirements then prevailing, and anticipated market conditions, including competing demands for funds, existing at the time of sale.

Southwest indicates that it intends to issue debt securities 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, private placements, bankers' acceptances, or other variable rate or fixed rate borrowing instruments which are or may become available in the capital markets. A general description of the debt securities is shown on pages 9 through 11 of the Application.

Southwest requests that debt securities may also be issued indirectly to Southwest through one or more governmental agencies or quasi-governmental agencies (Agency). This type of financing will require Southwest, concurrently with the sale and issuance of such securities, to enter into a financing agreement, a loan agreement, a guarantee arrangement or other documents and instruments customary for such financing with the Agency regarding such securities. Southwest has previous authorizations for this type of financing. Proceeds derived from past transactions of this type include: $35.72 million from the issuance of Industrial Development Revenue Bonds (IDRBs) in 2000 from the authority granted by D.00-11-034; $50 million of the City of Big Bear Lake IDRBs in 2000, under the authority granted by D.00-11-034; $165 million of Clark County IDRBs in 2002 per D.02-04-054; and $100 million of Clark County IDRBs in 2005 under the authority granted in D.05-02-049.

In addition, Southwest proposes that debt transactions may be made through special-purpose entities such as a subsidiary or affiliate of Southwest, which would issue debt securities and commit the proceeds from such issuance to Southwest. These securities may need to be guaranteed by Southwest, with such guarantees applying to any accrued or unpaid distributions, the redemption price and any repurchase obligations, as well as the liquidation preference. The proceeds of the issuance by such entities would be lent to Southwest through the issuance of debt securities featuring terms and conditions specified at the time of issuance. Similar transactions were approved for use by Southwest in D.95-08-048.

3.2 Issuance of Shares of Common Stock

Southwest proposes to issue and sell up to 5,000,000 shares of its $1 par value common stock, from time to time, through one or more public or private offerings. Such sales may be (1) registered or exempt from registration under the Securities Act of 1933 and may be underwritten or made on a best-efforts or other basis, (2) made or accomplished through Southwest's previously approved dividend reinvestment/stock purchase and employee benefit plans, or 3) made or accomplished through its 2006 Restricted Stock/Unit Plan described in the amendments to this application and approved by the company's shareholders at its May 2007 Annual Meeting.[2]

Southwest's Restated Articles of Incorporation in effect at the time of this application authorized the company to have a total of 45 million shares of $1 par value common stock; the requested stock issue in combination with previously authorized but not yet completed stock issues would take the company above this amount. In their March 19, 2007, amendment to this application, Southwest clarified that the requested approval was conditioned on receiving approval for a change to their articles of incorporation raising their total stock authorization to 60 million shares. Southwest's May 7, 2007, amendment reported that this change was approved by Southwest's shareholders at their shareholders' Annual Meeting on May 3, 2007.

Southwest states in the Application that the precise number and timing of each offering and sale has yet to be determined and will be established with due regard to its financial condition, capital requirements, and the then prevailing and anticipated market conditions. The offering and sale of common stock through Southwest's Benefit Plans will also take into consideration the number of shares necessary to continue said plans. A general description of the stock issue is shown on pages 11 and 12 of the Application, and pages 1 and 2 of the March 19, 2007, amendment.

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[2] Southwest's Dividend Reinvestment and Stock Purchase Plan, Employees Investment Plan (EIP), Management Incentive Plan (MIP), and 1996 Stock Incentive Plan (collectively referred to as the "Benefit Plans").

3.3 Interest Rate Risk Management

Southwest requests authority to use interest-rate caps, floors, collars, swaps, hedges (treasury lock, cap, and collar) and other financial instruments (collectively, "debt instruments") to manage the risks associated with interest rate volatility. Southwest also requests that these debt instruments not be counted against its authorized debt, since these debt instruments would not affect the amount of the underlying securities issued. In D.02-04-054, Southwest received Commission authorization for interest rate management transactions subject to conditions and limitations. A general description of the debt instruments is shown on pages 13 to 15 of the Application.

3.4 Discussion

Southwest's request to issue shares of common stock, debt securities, and to enter into one or more contracts, for the purpose of managing interest rate risk, are subject to §§ 816 *et seq*., which provide, in relevant part, as follows:

> **Section 816:** The power of public utilities to issue [debt and common stock] is a special privilege, the right of supervision, regulation, restriction, and control of which is vested in the State, and such power shall be exercised as provided by law under such rules as the commission prescribes.
>
> **Section 817:** A public utility may issue . . .[common stock], bonds, notes, and other evidence of indebtedness payable at periods of more than 12 months after the date thereof for any of the following purposes and no others:
>
> (a) Acquisition of property.
>
> (b) Construction, completion, extension, or improvement of its facilities.
>
> (c) Improvement or maintenance of its service.
>
> (d) Discharge or lawful refunding of its obligations.

(g) 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.

Section 818: No public utility may issue [debt or common stock]…unless…it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the…proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property, or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that…such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission has broad discretion under §§ 816 et seq., to determine if a utility should be authorized to issue debt and common stock. The primary standard used by the Commission is whether a utility has demonstrated a reasonable need to issue debt and equity securities for proper purposes. Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission. Southwest's financial requirements will be addressed in the Financial Information Section that follows.

4. Financial Information

For the twelve months ended June 30, 2006, Southwest reported total gas operating revenues at $1,624,536,000, construction revenues at $293,580,000 and net income of $61,700,000. Southwest's California revenues were $174,219,000 or 10.72% of total gas operating revenues. As of June 30, 2006, Southwest reported total capitalization and liabilities of $3,082,233,000.

4.1 Construction Budget

As of the date this application was filed, Southwest's forecasted construction expenditures for calendar years 2006 through 2008 were as follows:

(Thousands of Dollars)

Components	2006	2007	2008
Gas Distribution Plant	$231,383	$194,752	$188,997
Transmission Plant	6,069	3,849	6,904
General and Other Plant	46,809	50,595	49,015
Total	**$284,261**	**$249,196**	**$244,916**

Southwest's forecasted construction budget for 2006 through 2008 totals $778,373,000. Based on the information contained in Southwest's application, it is reasonable to assume that the construction budgets for 2009 and 2010 will remain at an average of approximately $250 million per year.

4.2 Cash Requirements Forecast

Southwest's Statement of Cash Requirements for 2006 through 2008 is as follows:

(Thousands of Dollars)

Uses of Funds	2006	2007	2008	Total
Funds Used or Required for Construction Expenditures	$284,261	$249,196	$244,916	$778,373

Maturities/Refinancings:				
Redemption of Preferred Securities	----	----	----	----
Long-Term Debt	75,000	17,500	25,000	117,500
Short-Term Debt at Beginning of Year to be Refinanced	24,000[3]	2,998	----	26,998
Total Funds Needed	**$383,261**	**$269,694**	**$269,916**	**$922,871**
Less: Estimated Cash Available from Internal Sources	228,707	141,894	124,782	495,383
Additional New Funds Required from Outside Sources	$154,554	$127,800	$145,134	$427,488

4.3 Funds from Outside Sources

Southwest proposes to secure the funding[4] as follows:

(Thousands of Dollars)

Source of Capital Funding	2006	2007	2008	Total
Estimated Proceeds from the Sale of Common Stock: MIP, Dividend Reinvestment & Stock Purchase Plan and EIP	$72,543	$25,800	$22,701	$121,044
Proceeds from Sale of Shares of Preferred Securities	----	----	----	----
Proceeds from Draw down of Tax Exempt Bond Issues	$79,013	$2,000	-	$81,013
Issuance of IDRBs	-	-	-	-
Issuance of Debentures/Terms Facility				

[3] Actual beginning balances as of January 1, 2006 (Schedule II, Page 1 of 3, Forecasted Monthly Cash Flow and Short-Term Debt Balances for the 12 Months Ending December 31, 2006).

[4] Schedule III, Page 2 of 2. For all years presented, there will be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. The exact timing and amount of future financing will depend on numerous internal and external factors.

& Medium Term Notes	-	100,000	100,000	200,000
Additional Cash Requirement/Surplus	2,998	-	22,433	25,431
Total	**$154,554**	**$127,800**	**$145,134**	**$427,488**

Southwest's Statement of Cash Requirements indicates that it would require additional funds from external sources amounting to $427,488,000 for 2006 through 2008. Approximately $276 million in unused authority to issue common stock and debt is available through past Commission decisions, but any additional funding needed for 2008 and any projects in 2009 and 2010 require the additional funding authority requested through this application. The requested authority in this Application for the issuance of $300 million debt and an estimated $170 million of proceeds from the sale of 5,000,000 shares of common stock at $34.00 per share is necessary to help meet forecasted cash requirements through 2010.

4.4 Capital Ratios

Southwest's capital ratios as of June 30, 2006, are shown below as recorded and as adjusted to give pro forma effect to the transactions listed:

(Thousands of Dollars)

	Recorded			Pro Forma[5]	
	Amount	Percent	Adjustments	Amount	Percent
Common Equity	$819,742	37.7	$361,105(a)	$1,180,847	38.6
Preferred and Preference Equity	100,000	4.6	140,000(b)	240,000	7.9

[5] Pro forma amounts assume all debt and equity financings requested in this filing are issued on one day. Pro forma amounts do not include additions to equity from ongoing operations (retained earnings prior to the new issuances of common stock, long-term debt, and preferred stock).

Long-Term Debt	1,251,919	57.7	385,000(c)	1,636,919	53.5
Short-Term Debt	-[6]	0.0	-	-	0.0
Total	**$2,171,661**	**100.0**	**$886,105**	**$3,057,766**	**100.0**

(a) 10,620,736 shares at an estimated average $34.00/share which include the following:

(1) 5,000,000 shares at an estimated $34.00/share under the authority requested in this application.

(2) 4,000,000 unused shares at an estimated $34.00/share under the authority granted in D.05-02-049.

(3) 1,620,736 unused shares at an estimated $34.00/share under the authority granted in D.00-11-034.

(b) $140 million of preferred securities as follows:

(1) $60 million under the authority granted in D.00-11-034.

(2) $80 million of preferred stock under the authority granted in D.00-09-009, as amended by D.00-09-053.

(c) $385 million of debt authority as follows:

(1) $300 million of authority as requested in this Application.

(2) $ 85 million of existing debt authority granted in D.05-02-049, as amended by D.02-04-072.

Southwest's authorized capital structure, as shown in D.04-03-034, dated March 16, 2004, consists of 42% common equity, 5% preferred equity, and 53% long-term debt.

[6] Forecasted ending balance as of June 30, 2006 (Schedule II, Page 1 of 3, Forecasted Monthly Cash Flow and Short-Term Debt Balances for the 12 Months Ending December 31, 2006).

While Southwest's proposed transactions do not appear to materially change Southwest's capital structure to the detriment of ratepayers, capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

5. Use of Proceeds

If granted the requested authority, Southwest intends to apply the net proceeds to: (i) acquire property; (ii) construct, complete, extend, or improve its facilities; (iii) refund maturing debt and preferred securities; (iv) fund payments or redemption requirements of debt and preferred securities (including any premiums required in connection therewith); (v) retire (through defeasance or otherwise), refinance, or exchange existing preferred securities and short- and long-term debt (including any premiums required in connection therewith); or (vi) reimburse its treasury for monies expended for the expansion and betterment of facilities.

The foregoing purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. Pursuant to § 823(d), we will permit Southwest to pay off short-term debt with the financing authority granted in this decision, provided the short-term debt issues were not used for operating expenses or income, and instead were used for items chargeable to capital accounts, and for the benefit of the public.

Therefore, we will grant Southwest authority under §§ 816 *et seq*., to issue 5,000,000 shares of common stock and $300 million of long-term debt for the aforementioned purposes. To provide Southwest with financial flexibility, we will not prescribe how much of the authorized debt and issue of common stock must be allocated to each of the authorized purposes. Southwest may allocate the proceeds from the authorized debt and common stock among the authorized purposes, as Southwest deems necessary. This authorization shall remain in effect until the financing authority granted herein is fully utilized.

Pursuant to Section 851, we will allow Southwest to execute debt instruments and encumber its property whenever such encumbrance serves to secure the debt authorized herein and the proceeds from such issuance are for the purposes described in the Application and herein and are used to support utility operations or services.

Our authorization is not to be construed as a finding of the value of Southwest's stock or properties nor as indicative of the amounts to be included in proceedings for the determination of just and reasonable rates. Consistent with § 824, Southwest shall maintain records to (1) identify the specific long-term debt and common stock issued pursuant to this order, and (2) demonstrate that the proceeds from such debt and common stock have been used only for the purposes authorized by this order.

Southwest shall not use any proceeds from the debt and equity securities, pursuant to this order, to begin construction of capital projects until Southwest has obtained the required approvals from the Commission, if any, including any required environmental review under the California Environmental Quality Act (CEQA).

Southwest has previously received Commission authority to enter into one or more interest rate transactions (most recently under D.05-02-049 dated February 24, 2005).

As Southwest suggests in its application, we require Southwest to adhere to the same conditions imposed in D.05-02-049 under which interest rate risk management contracts and other derivative financial instruments may be used:

1. Southwest should provide the Energy Division and the Division of Water and Audits' Utility Audit, Finance and Compliance Branch (UAFCB) a report providing the following information concerning the amount of interest rate management contracts and other derivative financial instruments: date of execution, date of expiration, amount, counterparty, counterparty rating, nature of transaction, index used, and termination provisions.[7]
2. Southwest should provide the Energy Division and the Division of Water and Audits' UAFCB a copy of any agreement Southwest enters into in connection with the issuance of bonds.
3. Southwest should limit its exposure to any one counterparty as follows:

Total Amount of Counterparty Risk	Maximum Exposure to One Party
Less than $100 million	100%
$100-$300 million	No more than 50%
Over $300-$500 million	No more than 33%
Greater than $500 million	No more than 25%

4. Southwest should limit its counterparty portfolio exposure as follows:

Counterparty Rating	Limitation
AAA	no limitation
AA	no limitation
A	no more than 60% of the total amount of counterparty exposure
BBB	no more than 30% of the total amount of counterparty exposure

(To be based on the lower rating, if applicable counterparty has a split rating.)

[7] Reviews financing requests of all industries.

5. Southwest's variable rate exposure (unhedged variable rate debt and fixed to floating interest rate risk management contracts) should not exceed 35% of the total debt outstanding. Total debt outstanding includes all fixed rate and variable rate debt instruments issued by Southwest, but does not include any short-term financing (debt that will mature within one year of its date of issuance) issued by Southwest.
6. Southwest should separately report all interest income and expense arising from all interest rate transactions in all monthly and annual financial reports to the Commission.

Southwest is placed on notice by this decision that the Commission may review the reasonableness of the effective interest rates for swaps, interest rate cap, floor, or collar agreements issued by Southwest in conjunction with Southwest's general rate case or other ratemaking proceedings.

5.1 Use of Affiliate or Subsidiary to Issued Debt

Section 701.5 prohibits utilities from issuing bonds or notes, guaranteeing financial transactions, or pledging utility assets for or on behalf of their subsidiaries or affiliates, but allows exceptions in some instances.

> With respect to financing arrangements which are established after January 1, 1988, no electrical, gas, or telephone corporation, whose rates are set by the commission on a cost of service basis, shall issue any bond, note, lien, guarantee, or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate of, or corporation holding a controlling interest in, the electrical gas, or telephone corporation. The commission may however, authorize … [the] corporation to issue … [a] guarantee … (c) For or on behalf of a subsidiary or affiliate if it engages in activities which support the electric, gas, or telephone corporation in its operations or service, these activities are, or will be, regulated either by the commission or a comparable

> federal agency, and the issuance of the bond, note, lien, guarantee, or indebtedness is specifically approved in advance by the commission. The commission shall not approve the bond, note, lien, guarantee, or indebtedness unless the commission finds and determines that the proposed financing will benefit the interests of the utility and its ratepayers.

Pursuant to Section 701.5(c), we will approve, as we have done in D.95-08-048, Southwest's request to guarantee securities issued by a financing subsidiary.

We caution Southwest, however, that our finding that this arrangement will benefit both Southwest and its ratepayers does not constitute a blank check for including the resulting cost of capital in its capital structure in a later proceeding. As we do with all financial authorizations, we remind Southwest that it will be expected to demonstrate and support in a future proceeding that the specific capital costs incurred were appropriate and beneficial under the circumstances. Furthermore, we will limit ratepayers' responsibility for expenses that may arise from interest or taxes that may be assessed by the Internal Revenue Service if expected tax advantages do not materialize (back taxes), as well as any penalties or interest on such penalties.

As required in D.95-08-048, we will, in this proceeding, hold ratepayers responsible for (1) back taxes, to the extent that the benefits of reduced taxes were flowed through to them, and (2) interest on ratepayer recovered back taxes, calculated at no more than the rate earned on prime, three-month commercial paper, as reported in the Federal Reserve Statistical Release, H-15.

Finally, we will require that the financing subsidiary would be created solely for the purpose of issuing securities to the public to support Southwest's natural gas utility operations or service, would be under Southwest's ownership and control, and would thus engage in activities regulated by this Commission.

6. Evergreening Authority

Evergreening provides a utility pre-authorization to issue securities for the purpose of (1) refinancing securities at maturity, (2) upon mandatory redemption, (3) upon repurchase for mandatory sinking fund requirements, or (4) upon optional refinancing to reduce financing costs, without corresponding new issue amounts being charged against Commission authorizations for "new money" securities.[8] Evergreening is not intended to facilitate changes in a utility's capital structure or in the nature of the underlying assets being financed, or to expand the permitted uses of proceeds. Debt may be replaced only with debt, preferred stock with preferred stock, and common stock with common stock.

In D.05-02-049, the Commission granted Southwest's request that its "Evergreening Authority" be extended until December 31, 2009. Southwest did not request further changes to its Evergreening authority, and we see no reason to change or extend this authorization expiration at this time.

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[8] Issuance of securities for optional refinancing of 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.

7. Competitive Bidding Rule

The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher (Item 6 of Resolution No. F-616).[9] Southwest's debt rating is "Baa3" as reported in the 2006 Moody's Bond Rating and "BBB" in Standard & Poor's 2006 Bond Rating. Accordingly, Southwest is exempted from the Competitive Bidding Rule in connection with this authorization.

8. Fee

Southwest paid the fee of $30,183 required by § 1904(b) when the Application was filed on November 6, 2006.[10] The calculation is shown in Schedule X to the Application. As shown in Schedule X, the amount of authority subject to the fee is calculated as follows:

Amount Requested:	
Debt Securities	$300,000,000
Common Stock	170,000,000
Less proceeds to be used for:	
Refinancing	-
Maturities	($19,000,000)
Net Total	$451,000,000
California Revenues	10.72%
California Related	$ 48,366,000

The fee for the California related financing authority as set forth by

[9] Public utilities are required to invite publicly, written sealed bids for the purchase of their securities (with certain exceptions), and to sell their securities at the highest price obtainable.

[10] CPUC CSR#43975 dated November 9, 2006.

§ 1904(b) and § 1904.2 is $30,183.[11]

9. Category and Need for Hearings

In Resolution ALJ 176-3182 dated November 9, 2006, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that an evidentiary hearing would not be necessary. Based on the record of this proceeding, we affirm that this is a ratesetting proceeding and that a hearing is not necessary.

10. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

11. Assignment of Proceeding

Dian Grueneich is the assigned Commissioner and Jessica T. Hecht is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Southwest, a California corporation is a public utility subject to the jurisdiction of this Commission.

2. Southwest needs external funding of approximately $427 million for 2006 through 2008 for the purposes set forth in the Application.

3. The funding requested in this decision, along with unused external funding authorized in previous decisions, is necessary to help meet estimated cash requirements through 2010.

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[11] The fee is determined as follows: ($2 x 1,000,000/1,000)) + ($1 x (9,000,000/1,000) + (0.50 x (38,366,142/1,000)) = $30,183.

4. The requested authority to issue debt and equity obligations are for proper purposes, not adverse to the public interest.

5. Authorizing Southwest to determine the precise amount and timing of each debt issue, the market in and method by which each debt issue is effected, and the price, interest rate, and other material provisions of each debt issue is not adverse to the public interest.

6. The use of interest rate risk management contracts, interest rate swap agreements, and other rate management agreements in appropriate circumstances is not adverse to the public interest. These features are tools that may improve the terms and conditions of debt issues and may lower overall cost of money for the benefit of ratepayers.

7. Southwest's California operating revenues are 10.72% of its total gas operating revenues.

8. On November 9, 2006, Southwest paid the fee of $30,183 pursuant to Pub. Util. Code § 1904(b) and § 1904.2.

9. The reasonableness of any resulting interest rate and cost of money arising from debt capital is normally subject to review in cost of capital or general rate case proceedings.

10. The Commission does not by this decision determine that Southwest's construction budget, cash requirements forecast, and capital ratios presented herein are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case or cost of capital proceedings.

Conclusions of Law

1. This is a ratesetting proceeding.

2. A public hearing is not necessary.

3. The authorized financing transactions are for lawful purposes and the money, property, or labor to be obtained is required for these purposes. The proceeds may not be charged to operating expenses or income.

4. Section 701.5(c) provides that the Commission may authorize an electrical, gas, or telephone corporation to issue any bond, note, lien, guarantee, or indebtedness pledging the utility assets or credits for or on behalf of a subsidiary or affiliate if it engages in activities which support the electrical, gas, or telephone corporation in its operations or service, these activities are, or will be, regulated either by the Commission or a comparable federal agency, and the issuance of the bond, note, lien, guarantee, or indebtedness is specifically approved in advance by the Commission.

5. Section 817(d) provides that debt issues may be used for the discharge or lawful refunding of obligations.

6. Section 818 requires Commission authorization for the issue of stocks, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months.

7. Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

8. Southwest should not use the proceeds from the debt and equity securities authorized by this order to fund capital projects until Southwest has obtained any required Commission approvals for the projects, including any required environmental review under CEQA.

9. The Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher.

10. This authorization is not a finding of the value of Southwest's stock or property, nor does it indicate approval of matters subject to review in ratemaking proceedings.

11. The money, property, and labor to be procured by Southwest with the proceeds of the debt and equity securities authorized by this decision are reasonably required for the purposes specified in this Decision, and such purposes are not reasonably chargeable to operating expenses or income.

12. Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 14, 2006. There is no known opposition to this Application, and the authority requested should be granted subject to the conditions set forth in this order.

13. The following Order should be effective immediately so that Southwest may issue as soon as possible the debt and equity securities authorized herein.

O R D E R

IT IS ORDERED that:

1. The authority requested in Application (A.) 06-11-002 (Application) and described in the following Ordering Paragraphs is granted pursuant to Pub. Util. Code §§ 816 through 830 and § 851.

2. Southwest Gas Corporation (Southwest) is authorized to obtain debt capital in an aggregate amount not to exceed $300,000,000 through the direct issuance of one or more types of indebtedness, including, without limitation, debentures, bonds, notes, bank loans, capital leases, private placement, commercial paper programs, extendible commercial notes, bankers' acceptances, and other variable-rate instruments all of which are or may become available in

the capital markets or indirectly through one or more governmental agencies, as identified in A.06-11-002.

3. Southwest may determine the precise amount and timing of each debt financing, the market in, and method by which each is issued, the principal amounts and maturities and, if any, the terms of redemption, repurchase security, other security, subordination and conversion provisions, rights, warrants, and the other terms and provisions and the price and interest rate (which may be fixed, adjustable, variable, or set by auction, remarketing, or other rate setting procedures) of the borrowings and of any securities related thereto or issuable in connection therewith in the manner set forth in the Application.

4. Southwest may enter into interest-rate caps, collars, swaps, hedges, and other financial instruments to manage interest rate risks subject to the conditions appearing in Section 5 of this decision.

5. Southwest may issue and sell up to 5,000,000 shares of its $1 par value common stock, in addition to its existing authority, by public or private offering, or through its Benefit Plans.

6. Southwest may encumber its assets in connection with the debt issues authorized herein.

7. Southwest may refinance existing long-term debt described in the Application by the issuance and sale of debt or equity securities authorized in this order.

8. Southwest may refinance, refund, or replace short-term debt with the proceeds of the debt or equity securities authorized in this order.

9. Southwest may guarantee securities issued by a financing subsidiary or affiliates as discussed in section 5.1 of this decision.

10. Southwest shall provide the Energy Division and the Division of Water and Audit's Utility, Audit, Finance, and Compliance Branch a report providing the following information concerning the amount of interest rate management contracts and other derivative financial instruments: date of execution, date of expiration, amount, counterparty, counterparty rating, nature of transaction, index used, and termination provisions.

11. Pursuant to § 824 and General Order 24-B (GO 24-B), Southwest shall maintain records that (i) identify the specific short-term debt, long-term debt, and common stock issued pursuant to this decision, and (ii) demonstrate that the proceeds from the debt and equity securities issued pursuant to this decision have been used only for the purposes authorized by this decision.

12. On or before the 25th day of the month following each quarter, Southwest shall file the reports required by GO 24-B, and will include additional information on activities under the evergreen authorization.

13. Southwest shall comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs that are financed, in whole or in part, with the proceeds from the debt and equity securities authorized by this decision.

14. Southwest is exempt from the Commission's Competitive Bidding Rule, which applies only to utilities with bond ratings of "A" or higher.

15. The authority granted herein shall be effective until the financing authorization is fully utilized.

16. Application 06-11-002 is closed.

This order is effective today.

Dated September 6, 2007, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners