ALJ/SMW/oma **Date of Issuance 11/2/2010**

Decision 10-10-022 October 28, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation for authority to: (i) issue one or more types of debt securities in the principal amount of up to $200,000,000; (ii) refinance previously issued short-term debt securities; (iii) refinance previously authorized securities under the "Evergreening Authority" guidelines; and (iv) enter into one or more interest rate risk management contracts. (U905G)	Application 10-04-008 (Filed April 2, 2010)

DECISION AUTHORIZING SOUTHWEST GAS CORPORATION TO ISSUE UP TO $200 MILLION OF NEW DEBT SECURITIES

TABLE OF CONTENTS

DECISION AUTHORIZING SOUTHWEST GAS CORPORATION TO ISSUE UP TO $200 MILLION OF NEW DEBT SECURITIES

1. Summary

This Decision grants Southwest Gas Corporation (Southwest) the authority to issue up to $200 million of new Debt Securities. This Decision also authorizes Southwest, as enumerated in the order of this Decision to: 1) encumber utility property; 2) refinance, refund, or replace currently issued short-term securities; 3) refinance previously authorized securities at maturity, upon mandatory redemption, upon repurchase for mandatory sinking fund requirements, or upon optional refinancing under Evergreening Authority; 4) issue Debt Securities indirectly through Southwest regulated subsidiaries, Southwest regulated affiliates, governmental entities, and/or quasi-governmental entities; 5) guarantee the securities or other obligations of Southwest regulated subsidiaries, Southwest regulated affiliates, governmental entities, and quasi-governmental entities that issue securities on behalf of Southwest; 6) enter into debt enhancement features; 7) be exempt from the Commission's Competitive Bidding Rule; and 8) report all Debt Securities information required by General Order 24-B to the Commission on a quarterly basis.

2. Background

On April 2, 2010, Southwest Gas Corporation (Southwest) filed Application (A.) 10-04-008 requesting authorization to: issue Debt Securities of up to
$200 million; refund, refinance, or replace previously issued securities; refinance previously authorized securities under the Evergreening Authority guidelines; enter into one or more interest rate risk management contracts; encumber utility property; guarantee obligations of regulated subsidiaries, regulated affiliates,

and government entities; and be exempted from the Competitive Bidding Rule. On April 29, 2010, the assigned Administrative Law Judge (ALJ) issued *Administrative Law Judge Ruling Requiring Applicant to File a Response to Request for Information Within 10 Days* (Ruling). On May 7, 2010, Southwest filed its *Response to Inquiries of the Administrative Law Judge* (Response). On May 10, 2010, the assigned ALJ provided follow-up questions to Southwest via e-mail, to which it responded via e-mail on May 18 and 20, 2010.

Notice of the application appeared in the Commission's Daily Calendar of April 9, 2010 and no protests were filed. On April 22, 2010, Resolution ALJ 176-3252 was issued, preliminarily categorizing this application as ratesetting, and that no hearings were needed.

3. Request

In its application, Southwest seeks authorization to issue up to $200 million of Debt Securities in addition to previously-authorized amounts, until the aggregate principal amount authorized has been fully utilized to meet its future financing needs based on a long-term forecast covering the three-year period 2010 through 2012. The principal amount, form, terms, and conditions of each series of Debt Securities will be determined by Southwest according to market conditions at the time of sale or issuance. In general, each series of medium-and long-term Debt Securities are expected to have a maturity of between five and 40 years, while some notes will have a term of between nine months and 15 years. Southwest states that its use of nine months as a floor for the term of its notes is designed to parallel requirement of the Securities and Exchange Commission (SEC) requirements that debt instruments with a maturity of greater than 270 days must be registered with the SEC. In its response to follow-up questions, Southwest states that it does not plan to issue debt requested in the current application for less than one year.

Southwest indicates that it intends to issue, without limitation, Debt Securities directly as: debentures; notes; bonds; loans; commercial paper programs; extendible commercial notes; bank loans; capital leases; accounts receivable financing; private placements with insurance companies or other lenders; bankers acceptances; floating rate debt; or other evidences of indebtedness; using variable or fixed rates; issuing such indebtedness as secured, unsecured, senior, subordinate, or with warrants or rights; in domestic or foreign markets.

Southwest proposes to use its new financing authority to: a) acquire property; b) construct, complete, extend, or improve its facilities; c) refund maturing debt and preferred securities; d) fund payments or redemption requirements of debt and preferred securities (including any premiums required in connection therewith); e) retire, refinance, or exchange existing preferred securities and short-and long-term debt (including any premiums required in connection therewith); and/or f) 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 Applicant's general treasury funds.

Southwest seeks authorization to encumber utility property, including but not limited to accounts receivables and capital leases to secure Debt Securities authorized herein. Southwest also seeks authorization to guarantee the Debt Securities and obligations of its regulated subsidiaries or regulated affiliates, governmental entities, or quasi-governmental entities that issue securities on behalf of Southwest. In order to manage interest rate risk, Southwest proposes to utilize debt enhancement features, including put options, call options, credit enhancement arrangements, interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, interest rate collar agreements, special-purpose entity transactions, hedges, treasury locks, caps, and collar agreements, subject to specific conditions. Additionally, Southwest seeks exemption from the Commission's Competitive Bidding Rule.

4. Discussion

4.1. Public Utilities Code Requirements for Issuance of Securities

Southwest's request 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 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.[1] Those purposes not listed in Pub. Util. Code

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[1] 817.

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.

Footnote continued on next page

§ 817 may only be paid with funds from normal utility operations. In particular, Southwest states that even though the term of its notes has a floor of nine months, it does not plan to issue any debt with a term of less than 12 months based on the authority requested in the current application. We reiterate that Debt Securities issued pursuant to Pub. Util. Code § 817 must have a term of greater than 12 months.

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

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(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.

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 has substantiated that its need for issuance of new Debt Securities are necessary and are for proper purposes, as discussed above in Section 4.2 of this Decision. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income.

Since Southwest's request is in compliance with Pub. Util. Code § 816 et seq., we will grant it authority to issue new Debt Securities for the aforementioned purposes and terms, and for the amounts determined in the order of this Decision.

4.2. Forecast of Sources and Uses

Utility applications seeking authority to issue debt or other securities are based, in part, on forecasted sources and uses of funds that illustrate the requested need for funding. Southwest used a long-term forecast covering the three-year period of 2010-2012 to determine its future financing needs. Southwest's forecast includes uses of funds such as capital expenditures, redemption of Preferred Equity, and maturities/refinancing of previously issued

Debt Securities.[2] Southwest's forecast also includes sources of funds, such as cash from internal sources, sale of Common Stock, proceeds from drawdown of tax-exempt bond issues, existing financing authority, and additional cash requirements/surplus. We rely on Southwest's forecast to determine the forecast of Sources and Uses set forth below in Table 1.

Table 1

Sources and Uses Statement for 2010-2012

USES OF FUNDS	(Thousands of Dollars)			
	2010	2011	2012	Total
Capital Expenditures	$199,191	$188,980	$184,371	$572,542
Redemption of Preferred Securities	$100,000	-	-	$100,000
Maturities/Refinancing Long-Term Debt	-	$200,000	$500,000	$700,000
Total Funds Required	$299,191	$388,980	$684,371	$1,372,542
SOURCES OF FUNDS				
Proceeds from Drawdown of Tax Exempt Bonds	$27,000	$23,000	-	$50,000
Estimated Proceeds from Sale of Common Stock[3]	$2,657	$2,800	$402	$5,859
Cash from Internal Sources	$219,534	$162,871	$77,342	$459,747
Additional Cash	-	$309	$106,627	$106,936

[2] A.10-04-008 at Exhibit C, Schedules I, III, VI, and IX, Response, and response to follow-up questions.

[3] See D.05-02-049 and D.07-09-007 for authorization.

Requirement/Surplus				
Total Source of Funds	$249,191	$188,980	$184,371	$622,542
Surplus (Deficient) Financial Sources[4]	$50,000	$200,000	$500,000	$750,000

Southwest has a total estimated existing financing authority of $659,089,470, consisting of $335 million of Debt Securities, $140 million of Preferred Equity, and 5,869,649 shares of Common Stock with an estimated value of approximately $176.1 million.[5] As shown in Table 1, Southwest is using $5.859 million of its available Common Stock authority to defray its gross need for funds. Of the remaining $750 million need for funding shown in Table 1, Southwest proposes to use $335 million of Debt Securities and $140 million of Preferred Equity, resulting in a remaining need for funds of $275 million.

Given the net need for funds is greater than the request, it is reasonable to authorize Southwest authority to issue $200 million of new Debt Securities. This new financing will allow Southwest to fund its capital expenditure plans for the period 2010 through 2012, retirement/refinance/refund of existing securities, and to reimburse Southwest for money expended from income or treasury funds, to the extent authorized by Pub. Util. Code § 817(h). We find Southwest's request to be reasonable and supported by the record.

Granting of financing authority to a utility does not obligate the Commission to approve any capital projects. This financing authority provides Southwest with sufficiently liquid resources to timely finance its upcoming

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[4] Surplus (deficit) equals total financial requirements less total source of funds.

[5] See A.10-04-008, Schedule IX. Southwest used a per share price of $30 multiplied times the authorized unused number of shares, which is similar to the average Southwest per share price for 2010 of approximately $29.

public utility projects, to refund maturing debt, and to reimburse its treasury. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project. Therefore, any approval of this financing request would not prejudge any of Southwest's forecasted projects for the period 2010 through 2012.

4.3. Types of Securities to be Issued

Southwest request to issue new Debt Securities, described in Section 3 of this Decision, that are similar to those types of Debt Securities authorized in D.07-09-007. Southwest also requests that it be allowed to issue new Debt Securities "which may include, without limitation"[6] the types listed in its application. We cannot authorize something that has not been identified. Therefore, we will authorize Southwest to issue only the specific types of Debt Securities detailed in Section 3 of this Decision and enumerated in the order herein, and deny Southwest's request to use other forms of debt that are not specifically authorized in the order of this Decision.

Also consistent with § 824, Southwest 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.

4.4. Encumbrance of Utility Property

Southwest also seeks authority to encumber its utility property, including, but not limited to, its accounts receivables and capital leases, as part of issuing secured Debt Securities. This request to encumber utility property is subject to § 851 which states, in relevant part, that no utility shall encumber any part of its

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[6] A.10-04-008 at Section 8.2.

plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there under without first having secured from the Commission an order authorizing it to do so. Consistent with D.07-09-007,[7] we will authorize Southwest to encumber its utility property, including, but not limited to, its accounts receivables and capital leases.

Also consistent with D.07-09-012,[8] we will grant Southwest authority to guarantee or to pledge its assets on behalf of a subsidiary or affiliate of Southwest who qualifies to transact financing arrangements pursuant to Pub. Util. Code § 701.5. Southwest's subsidiary or affiliate must be created solely for the purpose of issuing securities to the public or privately to support Southwest's operations or service and Southwest should have 100% ownership and control of the subsidiary.

Consistent with D.02-04-054,[9] we will grant Southwest authority to issue Debt Securities through a governmental or quasi-governmental entity to obtain tax-exempt status for the securities, whenever Southwest's facilities qualify for tax-exempt financing under federal or state law. In this structured financing, Southwest is authorized to unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuers obligations, Southwest may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

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[7] See D.07-09-007, Ordering Paragraph (OP) 6.

[8] See D.07-08-012, OP 9.

[9] See 2002 Cal. PUC LEXIS 277 at 6.

4.5. Debt Enhancements

Southwest seeks authority to include certain debt enhancements in the issuance of its Debt Securities, subject to conditions, which can assist in the management of interest rate risk. Southwest also requests that such authority not be considered as additional debt for purposes for calculating the amount of authorization used, since the use of such authority would not increase the amount of the underlying or related securities issues or to be issued. These debt enhancements consist of put options, call options, credit enhancement arrangements, interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, interest rate collar agreements, special-purpose entity transactions, hedges, treasury locks, caps, and collar agreements. The conditions requested by Southwest are included in Attachment A to this Decision.

The Commission has previously given Southwest authority to use similar debt enhancements subject to these conditions and not considered as additional debt as described above.[10] We will again authorize Southwest to use these previously approved forms of debt enhancements to manage interest rate risk and not consider the debt enhancements described above as additional debt for purposes of calculating the amount of authorization used. We also require Southwest to comply with its proposed conditions except, wherever Southwest has used the word "should" we substitute "must."

4.6. Competitive Bidding Rule Exemption

Resolution F-616, issued on October 1, 1986, requires utilities to issue debt using competitive bids. Pursuant to Item 6 of Resolution F-616, the Competitive

Bidding Rule applies only to utilities with bond ratings of "A" or higher. Southwest's debt rating is "Baa3" as reported in the 2009 Moody's Bond Rating and "BBB" in Standard & Poor's 2009 Bond Rating. Southwest has been authorized exemptions from the Competitive Bidding Rule in past decisions on the basis of having a bond rating lower than "A".[11] Accordingly, Southwest is exempted from the Competitive Bidding Rule in connection with this authorization.

Southwest has not used Diverse Business Entities (DBE) in the issuance of its securities, but does use DBE's for lease financing activities and investment management for employee benefit plants. Consistent with General Order 156, it is expected that Southwest will make greater efforts to include DBEs in future offerings in the issuance of securities and all other underwriting services. We will closely monitor Southwest's progress in its DBE procurement practices going forward.

4.7. Evergreening Authority

Evergreening Authority provides a utility pre-authorization to issue long-term Debt Securities and Preferred Equity 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; without corresponding new issue amounts being charged against Commission

[10] See D.07-09-007 at OP 4; D.05-02-049 at OP 4; and D.02-04-054 at OP's 5-11.

[11] See D.07-09-007 at 25-26and D.05-02-049 at 9.

authorizations for "new money" securities.[12] Evergreening Authority 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 Securities may be replaced only with Debt Securities, Preferred Stock with Preferred Stock, and Common Stock with Common Stock.

Evergreening Authority is intended to limit or eliminate the need for multiple Commission approvals when a public utility, having such authority, subsequently wants to issue Debt Securities, Preferred Stock, or Common Stock 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.

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 new issue

[12] 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.

amounts (including any redemption premiums) from the balance remaining under Commission authorizations.

Southwest requests that the Evergreening Authority authorized in D.05-02-049, that expired on December 31, 2009, be renewed through December 31, 2015. Southwest anticipates that it will use the Evergreening Authority for certain amounts of its existing long-term Debt Securities and Preferred Securities, when permitted by the timing of the refinancing, and to refinance existing long-term Debt Securities if favorable market conditions exist.

From 1994 through 2009, Southwest has used $1.006 billion of its Evergreening Authority, consisting of $521 million to finance maturing debt instruments and $485 million for optional refinancing. Since it was last authorized in D.05-02-049, Southwest used its Evergreening Authority to:

1. Optionally refinanced $300 million of a Five-Year Revolving Line of Credit, resulting in savings of $495,000 (June 2006). The savings from this transaction were reflected in A.07-12-022, Southwest's most recent General Rate Case (GRC) application.
2. Refinanced $56 million of maturing debt with a Clark County Industrial Development Revenue Bond (September 2006). The savings will benefit only the customers within the Southern Nevada jurisdiction (this debt is jurisdiction-specific pursuant to Internal Revenue Services' restrictions).
3. Refinanced $50 million of optional refinancing with a Clark County Industrial Development Revenue Bond (September 2008). The savings will benefit only the customers within the Southern Nevada jurisdiction (this debt is jurisdiction-specific pursuant to Internal Revenue Services' restrictions).

There are no existing modifications, alterations, or limitations to the Evergreening Authority Guidelines (Guidelines) authorized by D.93-12-022.

Guideline (4) provides that any Evergreening Authority authorization shall have an initial term of no more than five years, unless suspended or extended by the Commission.

Granting Southwest'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 has shown that its previous Evergreening Authority has resulted in savings for its customers. Also, Southwest's request for a five-year renewal of its Evergreening Authority is in compliance with the terms and conditions of the Guidelines.[13]

We will, therefore, grant Southwest Evergreening Authority for long-term Debt Securities, Preferred Stock, and Common Stock subject to the Guidelines authorized by D.93-12-022 until five years from the date of this Decision. Southwest must also file with the Commission, on or before the 25th day of the month following each quarter, a statement for the preceding quarter showing all activity under the Evergreening Authority. This statement must be consolidated with its reports under General Order (GO) 24-B.

5. Reporting Requirement

GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds

[13] See D.93-12-022 at Appendix B, Item (4).

realized from the issuance of debt during the prior month; and (d) a monthly statement 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.

The Commission has granted many utilities authority to report quarterly the information required by GO 24-B in order to reduce their administrative cost of complying with the GO and to conform to past practice.[14] Southwest should be treated no differently. Southwest may report quarterly to the Commission the information required by GO 24-B. However, Southwest shall report this information on a monthly basis if directed to do so by the Commission staff.

6. Fee

Whenever the Commission authorizes a utility to issue debt and Preferred 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, since only part of its operations are in California, the Commission requires it to pay a fee on the portion of securities authorized in a particular Decision that are attributable to California.[15] 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.

[14] See, for example, D.05-08-008 at 36; D.04-10-037 at 51; and D.03-12-052 at 11-12.
[15] See D.07-09-007 at 26-27; D.05-02-049 at 27; and D.88-12-010 at 2 and 8-9.

The fee is calculated as follows:

Table 2

Calculation of Fee

Row	Description	Amount
a	Total Southwest Operating Revenues	$1,614,843,000
b	California Operating Revenues for Southwest	$158,880,000
c	California Operating Revenues as a Percent of Total ($158,880,000/$1,614,843,000)	9.839%
d	Percent of Operating Revenues * Requested Financing Authority ($200,000,000 * 9.839%)	$19,677,455
	Calculation of Fee:	
e	$2 * ($1,000,000/1,000)	$2,000.00
f	$1 * ($9,000,000/1,000)	$9,000.00
g	$0.50 * (9,677,455/1,000)	$4,838.73
	Total Fee (e + f + g)	$15,838.73

Since Southwest has already paid the required fee of $15,838.73, the authority granted by this order will become effective as of the date of this Decision.

7. Financial Information

We place Southwest on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of new Debt Securities as well as capital structures, are normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, we do not make a finding in this Decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money. We do not make a finding in this Decision on the reasonableness of Southwest' 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 securities is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

8. 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.[16] Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment are not "projects" subject to CEQA.[17]

This decision does not authorize any capital expenditures or construction projects. New construction projects which [utility] intends to finance via this application should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). To the extent capital

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[16] Public Resources Code Section 21080(b)(8).

[17] CEQA Guidelines Section 15378(b)(4).

expenditures are financed with the proceeds of the long-term debt issued pursuant to this decision, ongoing projects have already been subject to any necessary CEQA review undertaken prior to SCE receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

9. Categorization and Need for Hearings

By Resolution ALJ 176-3252, dated April 22, 2010, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary. Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

10. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. No comments were filed.

11. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Seaneen M. Wilson is the assigned ALJ in this proceeding.

Findings of Fact

1. Based on Southwest's forecast of uses adjusted for compliance with Pub. Util. Code § 817, the forecast of funds needed by Southwest over the period 2010-2012 is $1.373 billion. Of this need:

   a. $475 million will be provided from current financing authority;

b. $5.859 million will be provided by sale of Common Stock;

c. $50 million will be provided from drawdown of tax exempt bonds;

d. $459.747 will be provided from million from cash from internal sources;

e. $106.936 million will be provided from additional cash requirements/surplus; and

f. $200 million will be provided from new Debt Securities.

2. The proper term for securities issued pursuant to Pub. Util. Code § 817 is greater than 12 months.

3. The requested financing authority of $200,000,000 appears necessary to provide the external funding required to meet Southwest's projected cash requirements through 2012.

4. The proposed new financing requested by Southwest 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.

5. Resolution F-616 requires utilities to issue securities using competitive bids if they have a bond rating of "A" or higher.

6. Southwest's debt rating is "Baa3" as reported in the 2009 Moody's Bond Rating and "BBB" in Standard & Poor's 2009 Bond Rating.

7. Southwest has employed no DBE firms for issuance of Debt Securities, Preferred Stock, or Common Stock in recent years, because it receives pricing concessions when it issues securities through a core group of banks.

8. Southwest uses DBEs for lease financing opportunities and investment management for employee benefit plans.

9. Evergreening Authority Guidelines were authorized in D.93-12-022.

10. Southwest's most recent authorization for Evergreening Authority in D.05-02-049 expired on December 31, 2009.

11. 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.

12. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (d) a monthly statement 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.

13. The Commission has frequently authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.

14. 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.

15. Pursuant to Pub. Util. Code §§ 1904(b) and 1904.1, Southwest has paid a fee of $15,838.73.

16. Notice of A.10-04-008 appeared in the Commission's Daily Calendar on April 9, 2010, and no protests were filed.

17. In Resolution ALJ 176-3252, the Commission preliminarily determined that A.10-04-008 be categorized as ratesetting and that a hearing would not be necessary.

Conclusions of Law

1. Southwest should be granted authority to issue new Debt Securities of $200 million.

2. Southwest'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 should be granted authority to directly issue new Debt Securities in the form of debentures; notes; bonds; loans; commercial paper programs; extendible commercial notes; bank loans; capital leases; accounts receivable financing; private placements with insurance companies or other lenders; bankers acceptances; or floating rate debt, using variable or fixed rates; issuing such indebtedness as secured, unsecured, senior, subordinate, or with warrants or rights; in domestic or foreign markets.

4. Pursuant to Pub. Util. Code § 851, Southwest should be granted authority to encumber its utility property, including but not limited to capital leases and accounts receivable, to secure Debt Securities, as authorized herein.

5. Southwest should be granted authority to guarantee, or to pledge its assets on behalf of a regulated affiliates or regulated subsidiaries of Southwest, who qualifies to transact financing arrangements pursuant to § 701.5. A regulated subsidiary may be created solely for the purpose of issuing securities to the public or privately to support Southwest's operations or service in which case, Southwest should have 100% ownership and control of the subsidiary.

6. Southwest should be granted authority to issue Debt Securities through a governmental or quasi-governmental issuer to obtain tax-exempt status for the securities, authorized herein. This authority will be used whenever Southwest's facilities qualify for tax-exempt financing under federal or state law. In this

structured financing, Southwest may unconditionally guaranty or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, Southwest may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

7. Southwest should be granted authority to use the following kids of debt enhancements to manage interest rate risks of its Debt Securities authorized herein: put options; call options; credit enhancement arrangements; interest rate swap agreements; interest rate cap agreements; interest rate floor agreements; interest rate collar agreements; special-purpose entity transactions; hedges, treasury locks; caps; and collar agreements.

8. Southwest should be granted authority to exclude the debt enhancements authorized herein for purposes of calculating its total financing authority granted in this Decision.

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

10. Southwest should comply with the conditions shown in Attachment A to this Decision, regarding debt enhancement transactions authorized herein.

11. In regards to Southwest's requested debt enhancement transaction conditions, the word "must" should be substituted for the word "should."

12. Pursuant to Item 6 of Resolution F-616, and since Southwest's bond ratings are lower than "A," the Competitive Bidding Rules do not apply to Southwest.

13. Southwest should be granted Evergreening Authority for long-term Debt Securities, Preferred Stock, and Common Stock, subject to the Guidelines authorized by D.93-12-022, until five years from the date of this Decision.

14. Southwest should file with the Commission, on or before the 25th day of the month following each quarter, a statement for the preceding quarter showing all activity under the Evergreening Authority. This statement should be consolidated with its reports under GO Series 24-B.

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

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

17. Approval of this financing request should not prejudge any of Southwest's forecasted capital projects for the period 2010 through 2012.

18. Since Southwest has paid the fee of $15,838.73 prescribed by §§ 1904(b) and 1904.1, the authority granted by this Decision should become effective as of the date of this Decision.

19. The order herein is not a finding of the reasonableness of SCE's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.

20. The order herein does not involve any commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to CEQA. (CEQA Guidelines Section 15378(b)(4).)

21. Southwest should not use the proceeds from the debt authorized by this Decision to fund its capital projects until Southwest has obtained any required Commission approvals for the projects, including any required environmental review under CEQA.

22. The authority granted Southwest herein is in compliance with Pub. Util. Code §§ 701.5, 816, 817, 818, 824, and 851.

O R D E R

IT IS ORDERED that:

1. Southwest Gas Corporation is authorized to issue new Debt Securities in the amount of $200 million for terms of greater than 12 months.

2. Southwest Gas Corporation is authorized to issue new Debt Securities in the form of: debentures; notes; bonds; loans; commercial paper programs; extendible commercial notes; bank loans; capital leases; accounts receivable financing; private placements with insurance companies or other lenders; bankers acceptances; or floating rate debt; using variable or fixed rates; issuing such indebtedness as secured, unsecured, senior, subordinate, or with warrants or rights; in domestic or foreign markets.

3. Pursuant to Pub. Util. Code § 851, Southwest Gas Corporation is authorized to encumber its utility property including but not limited to capital leases and accounts receivable to secure the Debt Securities authorized herein.

4. Southwest Gas Corporation is authorized to issue Debt Securities through and guarantee or pledge its assets on behalf of a regulated subsidiary or regulated affiliate of Southwest Gas Corporation, pursuant to § 701.5. Southwest Gas Corporation's regulated affiliate or regulated subsidiary may be created solely for the purpose of issuing securities to the public or privately to support Southwest Gas Corporation's operations or service in which case, Southwest Gas Corporation must have 100% ownership and control of the subsidiary.

5. Southwest Gas Corporation is authorized to issue Debt Securities through a governmental or quasi-governmental issuer to obtain tax-exempt status for the securities, if the facilities qualify for tax-exempt financing under federal or state

law. In this structured financing, Southwest Gas Corporation may unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, Southwest Gas Corporation may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

6. Southwest Gas Corporation is granted authority to use the following kinds of debt enhancements to manage interest rate risks in connection with actual, pending or planned issues of Debt Securities: put options; call options; credit enhancement arrangements; interest rate swap agreements; interest rate cap agreements; interest rate floor agreements; interest rate collar agreements; special-purpose entity transactions; hedges; and treasury locks, caps, and collar agreements.

7. Southwest Gas Corporation is authorized to exclude the authorized debt enhancements for purposes of calculating its total financing authorized herein.

8. Southwest Gas Corporation must comply with the conditions shown in Attachment A to this Decision, regarding debt enhancement transactions authorized herein.

9. In regards to Southwest Gas Corporation's debt enhancement transaction conditions shown in Attachment A to this Decision, the word "must" is substituted for the word "should."

10. 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, until five years from the date of this Decision.

11. Southwest Gas Corporation must file with the Commission, on or before the 25th day of the month following each quarter, a statement for the preceding

quarter showing all activity under the Evergreening Authority granted herein. This statement should be consolidated with its reports under General Order Series 24-B.

12. Southwest Gas Corporation must report on a quarterly basis all the information required by General Order 24-B with respect to debt issued pursuant to this Order. However, Southwest Gas Corporation must report this information on a monthly basis if directed to do so by the Commission staff.

13. 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 any required Commission approvals for the projects, including any required environmental review under California Environmental Quality Act.

14. Since Southwest Gas Corporation has paid the fee of $15,838.73 prescribed by §§ 1904(b) and 1904.1, the authority granted by this Decision is effective as of the date of this Decision.

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. Application 10-04-008 is closed.

This order is effective today.

Dated October 28, 2010, at San Francisco, California.

MICHAEL R. PEEVEY
President
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners

Commissioner Dian M. Grueneich, being necessarily absent, did not participate.

ATTACHMENT A

A. Southwest must provide the Energy Division and the Division of Water and Audits' (DWA) 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.

B. Southwest must provide the Energy Division and the DWA UAFCB a copy of any agreement Southwest enters into in connection with the issuance of bonds.

C. Southwest must 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%

A. Southwest must 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.)

A. Southwest's variable rate exposure (unhedged variable rate debt and fixed to floating rate risk management contracts) must 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.

B. Southwest must separately report all interest income and expense arising from all interest rate transactions in all monthly and annual financial reports to the Commission.

(END OF ATTACHMENT A)