

ORIGINAL

NEW APPLICATION



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**SOUTHWEST GAS CORPORATION**

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AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

**DOCKETED**

OCT 13 2015

October 13, 2015



Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007-2996

**Docket No. G-01551A-**

G-01551A-15-0351

**Re: Notice of Intent to Implement a Plan of Reorganization that Will Result in a Holding Company Structure**

Southwest Gas Corporation hereby submits for filing an original and thirteen (13) copies of its Notice of Intent to the Arizona Corporation Commission requesting authority to implement a plan of reorganization that will result in a holding company structure.

If you have any questions please contact me at 602-395-4058.

Respectfully submitted,

Matthew D. Derr  
Regulatory Manager/Arizona



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8 4. Southwest Gas is a public utility subject to the jurisdiction of the Commission  
9 pursuant to Article XV of the Arizona Constitution and the applicable chapters of Title 40 of the  
10 Arizona Revised Statutes (A.R.S.). Southwest Gas is engaged in the retail distribution,  
11 transportation and sale of natural gas for domestic, commercial, agricultural and industrial uses,  
12 and currently serves approximately 1.9 million customers in the states of Arizona, California,  
13 and Nevada.

14 5. Southwest Gas seeks to implement a plan of corporate reorganization (Plan) that  
15 will result in a holding company structure. The Plan is consistent with the corporate structure  
16 utilized by many utilities in Arizona and throughout the United States. As discussed in further  
17 detail below, the Plan is essentially a "paper" transaction. It will not impact Southwest Gas' day-  
18 to-day operations, nor will it have any effect on how the Company is regulated by the  
19 Commission.

20 6. Attached hereto as **Exhibit A** are two corporate structure diagrams – the first  
21 depicts the Company's current corporate structure, and the second depicts the anticipated  
22 corporate structure once the Plan is fully implemented.

#### 23 **Rationale for Reorganization**

24 7. Southwest Gas believes its Plan is in the best interests of both its customers and  
25 its shareholders. The Plan will result in a holding company structure that furthers the separation  
between Southwest Gas' utility function and its non-regulated construction services affiliates,  
without altering the Commission's ability to effectively regulate the Company's utility operations

1 and without any change in the safe, reliable natural gas service the Company provides to its  
2 customers.

3 8. Although Southwest Gas already maintains substantial separation between its  
4 two lines of business, the proposed holding company structure will increase the degree of  
5 financial separation such that the financial results of the construction services affiliates should  
6 not impair Southwest Gas' capital structure, credit ratings, or cost of capital. The proposed  
7 structure will also work to better insulate utility assets and reduce the risk that such assets could  
8 be reached by creditors of the construction services affiliates. These reductions in financial and  
9 legal risk are inherent benefits to Southwest Gas' customers.

10 9. The Plan will also offer greater flexibility in financing by allowing both the utility  
11 and the holding company to access capital markets. It will also separate the utility side of the  
12 business from any financial arrangements between the holding company and non-utility  
13 affiliates.

14 10. The Commission will continue to exercise jurisdiction over Southwest Gas in the  
15 same manner as it does today. The Federal Energy Regulatory Commission (FERC) will  
16 continue to exercise jurisdiction over the Company's affiliates, Paiute Pipeline Company (Paiute)  
17 and Southwest Gas Transmission Company (SGTC).

18 11. Further, there will be no change in Southwest Gas' day-to-day operations  
19 following implementation of the Plan. The Company will continue providing safe and reliable  
20 natural gas service to its customers in the same manner as before the Plan.

21 **Description of Transaction**

22 12. The Company's Plan involves the creation of three new corporations – a publicly  
23 traded holding company (HoldCo), an intermediate holding company (Intermediate HoldCo) and  
24 a merger subsidiary (Merger Sub), which will be utilized for the sole purpose of effectuating the  
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1 transaction.<sup>1</sup> None of these entities currently exists; however, Southwest Gas intends to  
2 incorporate them after receiving all necessary regulatory approvals.<sup>2</sup>

3 13. Southwest Gas' Plan is essentially a "paper" transaction, which accomplishes the  
4 reorganization through a reverse triangular merger (RTM). The RTM is a commonly used  
5 mechanism in corporate restructurings, including utility holding company reorganizations,  
6 because it accomplishes the reorganization without altering the utility's internal corporate  
7 structure, operations or assets.

8 14. Through the RTM, HoldCo will become the parent holding company. Initially,  
9 Southwest Gas will own the outstanding shares of HoldCo and HoldCo will own the outstanding  
10 shares of Merger Sub and Intermediate HoldCo. Upon receiving all necessary approvals, Merger  
11 Sub will merge with Southwest Gas, with Southwest Gas as the surviving entity.  
12 Simultaneously, by operation of law, Southwest Gas shareholders will have their shares  
13 converted into HoldCo common stock on a share-for-share basis, and HoldCo will become the  
14 sole owner of all Southwest Gas common stock. HoldCo will then contribute Southwest Gas'  
15 common stock to Intermediate HoldCo, which will serve as the holding company for HoldCo's  
16 regulated entities. A chart depicting the reorganization process is attached hereto as **Exhibit**  
17 **B.**

18 15. All of Southwest Gas' outstanding debt securities at the time the Plan is  
19 implemented will remain at the Southwest Gas level.

20 16. With one exception, the common stock of each of Southwest Gas' affiliates is  
21 currently owned (directly or indirectly) by Southwest Gas.<sup>3</sup> Southwest Gas' wholly owned  
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23 <sup>1</sup> The names for these entities have not yet been selected. The names HoldCo, Intermediate HoldCo and Merger  
24 Sub are used for the purposes of this Notice. All three entities will be incorporated in California.

<sup>2</sup> Southwest Gas is also seeking authority for its Plan from the California Public Utilities Commission and the  
25 Public Utilities Commission of Nevada.

<sup>3</sup> Carson Water Company owns 96.6% of the issued and outstanding stock of Centuri Construction Group, Inc.  
(Centuri). The remaining 3.4% is owned by an unrelated third party.

1 subsidiary, Carson Water Company, is the holding company for the non-regulated construction  
2 services line of business. As part of the Plan, Southwest Gas will distribute its shares in Carson  
3 Water Company to HoldCo.

4 17. Southwest Gas will continue to own (directly or indirectly) all of the outstanding  
5 shares of its FERC-regulated affiliates, Paiute and SGTC.<sup>4</sup>

6 18. The merger transaction contemplated under the Plan will not result in Southwest  
7 Gas transferring any of its utility assets or property to HoldCo, Intermediate HoldCo, or any other  
8 affiliate.

9 19. HoldCo's securities will be registered with the Securities and Exchange  
10 Commission (SEC).

11 20. The Plan can be accomplished without affecting the rights and preferences of  
12 current Southwest Gas shareholders. Southwest Gas shareholders immediately prior to  
13 consummation of the Plan will own the same relative percentages of HoldCo following  
14 consummation of the Plan. This transaction therefore does not require the approval of  
15 Southwest Gas' current shareholders.<sup>5</sup>

16 21. Southwest Gas does not anticipate that the Plan will result in a taxable event,  
17 either under Arizona state law or the Internal Revenue Code. The Internal Revenue Service  
18 (IRS) has previously treated this type of transaction as a non-taxable event in similar cases.  
19 Notwithstanding, Southwest Gas has requested a Private Letter Ruling (PLR) from the IRS.

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<sup>4</sup> Paiute and SGTC are Southwest Gas' only regulated affiliates. Southwest Gas will also retain its ownership  
24 interest in certain non-regulated entities that are not involved with the construction services side of its business  
25 namely, Utility Financial Corporation and The Southwest Companies. Southwest Gas will also continue to serve  
as Trustee of Southwest Gas Capital III and IV, which are Delaware Business Trusts.

<sup>5</sup> California Corporations Code, Section 1201(b).

1           22. To the extent necessary, Southwest Gas will obtain approval of the Plan from  
2 certain creditors and other contractual counter-parties, or will provide any notifications required  
3 by the terms and conditions of the applicable agreements.

4           23. All costs associated with securing the necessary approvals for the Plan and  
5 implementing the Plan, including any and all costs associated with the formation of HoldCo,  
6 Intermediate HoldCo and Merger Sub, will be borne by Company shareholders, and Southwest  
7 Gas will not seek to recover any portion thereof in rates.

8 **Relevant Authority**

9 ***Information required by R14-2-803(A)***

10           24. The Company currently anticipates that the persons listed on the attached **Exhibit**  
11 **C** will serve as officers and directors of HoldCo and Intermediate HoldCo. The business address  
12 for each individual listed as it relates to these entities is P.O. Box 98510, Las Vegas, NV 89193-  
13 8510.

14           25. As discussed above, Southwest Gas seeks to implement its Plan in order to  
15 further separate its utility function and its non-regulated construction services affiliates, without  
16 altering the Commission's ability to effectively regulate the Company's utility operations and  
17 without adversely impacting the Company's customers. In fact, the only impact the transaction  
18 will have on customers is a positive one – the Plan will result in enhanced legal and financial  
19 protections for the utility. Southwest Gas' currently effective rates will not change as a result of  
20 the Commission granting the authority requested herein, nor as the result of the implementation  
21 of the Company's Plan.

22           26. No incremental financing will be required to implement Southwest Gas' Plan, and  
23 the resultant consolidated holding company capital structure will be the same as the Company's  
24 existing consolidated capital structure. Current Southwest Gas shareholders will become  
25 shareholders of the common stock of HoldCo, which will initially be 100 percent funded with

1 equity. The debt of the regulated operations will remain with Southwest Gas and the debt of the  
2 non-regulated operations will remain with the construction services entities. On a go-forward  
3 basis, it is expected that HoldCo will consider different sources of capital including common  
4 stock, preferred equity and debt. A schedule displaying Southwest Gas' actual consolidated  
5 capital structure as of June 30, 2015, and the pro forma capital structure that would result from  
6 reorganizing as a holding company, is attached hereto as **Exhibit D**. Also displayed are the pro  
7 forma capital structures for HoldCo, Southwest Gas, and the construction services business.

8         27. As shown in **Exhibit D**, there will be no significant effect on the consolidated  
9 capital structure of Southwest Gas. The pro forma capital structure for Southwest Gas is  
10 comprised of 52.6 percent equity and 47.4 percent long-term debt.

11         28. As discussed above, an organization chart for HoldCo that identifies all affiliates  
12 and their relationships within the holding company structure is included with **Exhibit A** to this  
13 Notice.

14         29. After the Plan is implemented, HoldCo will file a single consolidated U.S. federal  
15 income tax return, which will include Southwest Gas and its subsidiaries, as well as the  
16 unregulated business entities. The consolidated federal income tax liability for each year will be  
17 allocated according to a tax sharing agreement. Continuing the Company's current practice,  
18 state income tax returns will be filed for Southwest Gas on a combined or consolidated basis,  
19 when required. However, federal and state income taxes will be calculated on a stand-alone  
20 basis for individual entity financial statement and regulatory purposes.

21         30. All else being equal, Southwest Gas does not anticipate that its Plan will result in  
22 any material change in the utility's cost of service, its ability to access the capital markets, or the  
23 cost to obtain financing.

24         31. Southwest Gas currently has measures in place to separate its regulated and  
25 non-regulated lines of business, and the Company is subject to the Commission's regulations

1 regarding transactions between utilities and their affiliates. The proposed holding company  
2 structure will not eliminate or lessen the effectiveness of these existing measures. In fact, as  
3 discussed above, Southwest Gas believes the holding company presents an ideal mechanism  
4 for further safeguarding the integrity of the regulated utility operations by establishing an even  
5 greater degree of separation between the Company and its non-regulated affiliates. Further,  
6 the intent of Southwest Gas' Plan is to ensure that the Commission's regulatory oversight and  
7 authority over the regulated business remains unchanged. Southwest Gas will continue to  
8 comply with the Commission's affiliate transaction rules, including but not limited to those  
9 provisions that require appropriate accounting and cost allocations, and those which allow the  
10 Commission access to the books and records of Company affiliates.

11 32. Contemporaneous with the filing of this Application, Southwest Gas will furnish a  
12 Form 8-K to the SEC regarding the contemplated holding company structure. Southwest Gas  
13 also requires authority from the California Public Utilities Commission and the Public Utilities  
14 Commission of Nevada in order to implement its Plan. Applications are being filed with those  
15 agencies simultaneous with the instant Notice, and copies will be provided to the Commission's  
16 Utilities Division Staff (Staff) and any other interested parties once those applications are  
17 accepted for filing and assigned a docket number.

18 33. Under the proposed holding company structure, the equity investment in  
19 Southwest Gas, measured as percent of net utility plant, would be 41 percent, and the equity  
20 investment in the unregulated construction services company would be 4.5 percent of net utility  
21 plant, as of June 30, 2015.<sup>6</sup> Southwest Gas does not anticipate that any new external funds  
22 issued by HoldCo over the next five-year period will be invested in the unregulated intermediate  
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24 <sup>6</sup> As of June 30, 2015, under the proposed holding company structure, the equity investment balance for  
25 Southwest Gas was approximately \$1.42 billion and the equity investment balance of the unregulated  
intermediate construction services company was \$153 million (see Exhibit D). The net utility plant as of June 30,  
2015, was approximately \$3.43 billion.

1 construction services company, as the construction services companies would be self-financing.  
2 The equity investment in the unregulated construction services company will change based on  
3 its change in retained earnings (net income less dividends to HoldCo) and the level of equity  
4 investment is expected to remain in the range of 4.5 to 5.5 percent as a percent of net utility  
5 plant over the next five-year period. It is anticipated that HoldCo will continue to issue new  
6 equity on a periodic basis to support the capital structure of Southwest Gas as it continues to  
7 invest in utility plant, with the level of equity investment expected to remain in the range of 39 to  
8 43 percent as a percent of net utility plant over the next five-year period. Given that the relative  
9 level of investment in the utility and non-utility businesses is not anticipated to materially change,  
10 the level of investment risk should not materially change.

11 34. The proposed holding company structure will not adversely affect Southwest Gas'  
12 utility customers in terms of the cost of capital paid in rates. In past ratemaking filings with the  
13 Commission, Southwest Gas, as a diversified utility, has requested only gas distribution utility  
14 required rates of return, reflecting the utility-only costs and risks on a stand-alone basis. After  
15 the reorganization this practice will continue. Well established ring-fencing<sup>7</sup> has been placed  
16 around the utility operations, consistent with the Commission's affiliate rules. The holding  
17 company structure will enhance the legal and financial separation between the regulated utility  
18 and unregulated non-utility operations, and therefore provides additional ring-fencing protection.  
19 As a result, Southwest Gas expects no material impact to its ability to access the capital markets  
20 and obtain funding at reasonable costs to finance its investment in utility plant due to  
21 reorganizing into a holding company. Moreover, Southwest Gas' current long-term unsecured  
22 credit ratings are "A" from Fitch, Inc., "A3" from Moody's Investor Services, and "BBB+" from  
23 Standard & Poor's. Southwest Gas is committed to maintaining an appropriate capital structure

24 \_\_\_\_\_  
25 <sup>7</sup> Ring-fencing includes techniques to protect utility customers against cross-subsidies, abuse of affiliate transactions, and the credit risk from non-regulated affiliates.

1 to support its strong investment grade credit ratings. This commitment by Southwest Gas has  
2 been demonstrated by its willingness to continue to issue new equity to finance its investment  
3 in utility plant and maintain its capital structure.<sup>8</sup> With the formation of a holding company, this  
4 commitment will remain unchanged. In addition, the holding company structure will provide  
5 additional financing options that create the potential for HoldCo to support the Company's capital  
6 structure.

7 ***R14-2-803(B)***

8 35. In accordance with R14-2-803(B), the Commission will determine whether a  
9 hearing on the Company's request is necessary within 60 days of filing the instant Notice.  
10 Southwest Gas submits that the Commission can grant the authority requested herein without  
11 a hearing as the instant Notice clearly establishes that the Company's Plan is in the public  
12 interest. As demonstrated herein, the proposed holding company structure will not impair the  
13 financial status of the utility or otherwise prevent it from attracting capital at fair and reasonable  
14 terms. There will also be no impact on Southwest Gas' ability to provide customers safe and  
15 reliable natural gas service.

16 **Applicability of Other Affiliate Transaction Rules**

17 ***R14-2-804***

18 36. Southwest Gas will continue to comply with the Commission's rules regarding  
19 transactions between utilities and affiliates set forth in R14-2-804.  
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22 <sup>8</sup> In March 2015, the Company filed with the SEC a shelf registration statement which includes a prospectus  
23 detailing the Company's plans to sell up to \$100 million of the Company's common stock over a period of time.  
24 In March 2015, the Company entered into a Sales Agency Agreement with BNY Mellon Capital Markets, LLC  
25 relating to this issuance and sale of shares of the Company's common stock ("Equity Shelf Program"). Sales  
of the shares will continue to be made at market prices prevailing as intends at the time of sale. Net proceeds  
from the sale of shares of common stock under the Equity Shelf Program will be used for general corporate  
purposes, including the acquisition of property for the construction, completion, extension or improvement of  
pipeline systems and facilities located in and around the communities Southwest Gas serves.

1           37.    R14-2-804(B) and (C) require a utility to obtain approval from the Commission  
2 prior to obtaining a financial interest in a non-regulated affiliate, and before using utility funds to  
3 form a subsidiary or divest itself of any established subsidiary. As detailed herein, the  
4 Company's Plan involves the creation of new corporations that will initially be subsidiaries of the  
5 Company. The Plan also results in Southwest Gas divesting its interest in the non-regulated  
6 construction services affiliates. That interest, however, will be distributed to HoldCo. Southwest  
7 Gas believes that since these steps are a required part of the Plan that is the subject of this  
8 Notice, no additional pre-approvals are necessary. However, to the extent the Commission  
9 determines that the provisions of R14-2-804(B) and (C) are triggered once the Company  
10 receives the required approvals and implements its Plan, the Company seeks a waiver such  
11 that no additional pre-approvals are required for the transactions contemplated by the Plan.  
12 Consistent with R14-2-806, the requested waiver is in the public interest given that Southwest  
13 Gas' Plan is essentially a "paper" transaction that does not involve the transfer of assets, or a  
14 change in utility management or day-to-day operations. Further, the Commission and interested  
15 parties have an opportunity to review the specific steps of the Company's Plan as part of its  
16 review and consideration of this Notice.

17           ***R14-2-805***

18           38.    Southwest Gas will continue to submit annual reports in April of each year that  
19 satisfy the requirements of R14-2-805.

20           **Conclusion**

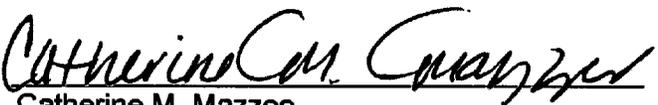
21           39.    Based upon the foregoing, Southwest Gas respectfully requests that the  
22 Commission:

- 23                   (1)   Grant the Company authority to implement its Plan to reorganize into a  
24 holding company structure, including all transactions necessary to implement the Company's  
25 Plan as described herein;

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- (2) Grant the Company a waiver from the provisions of R14-2-804(B) and (C), as applicable; and
- (3) For such other relief the Commission deems appropriate.

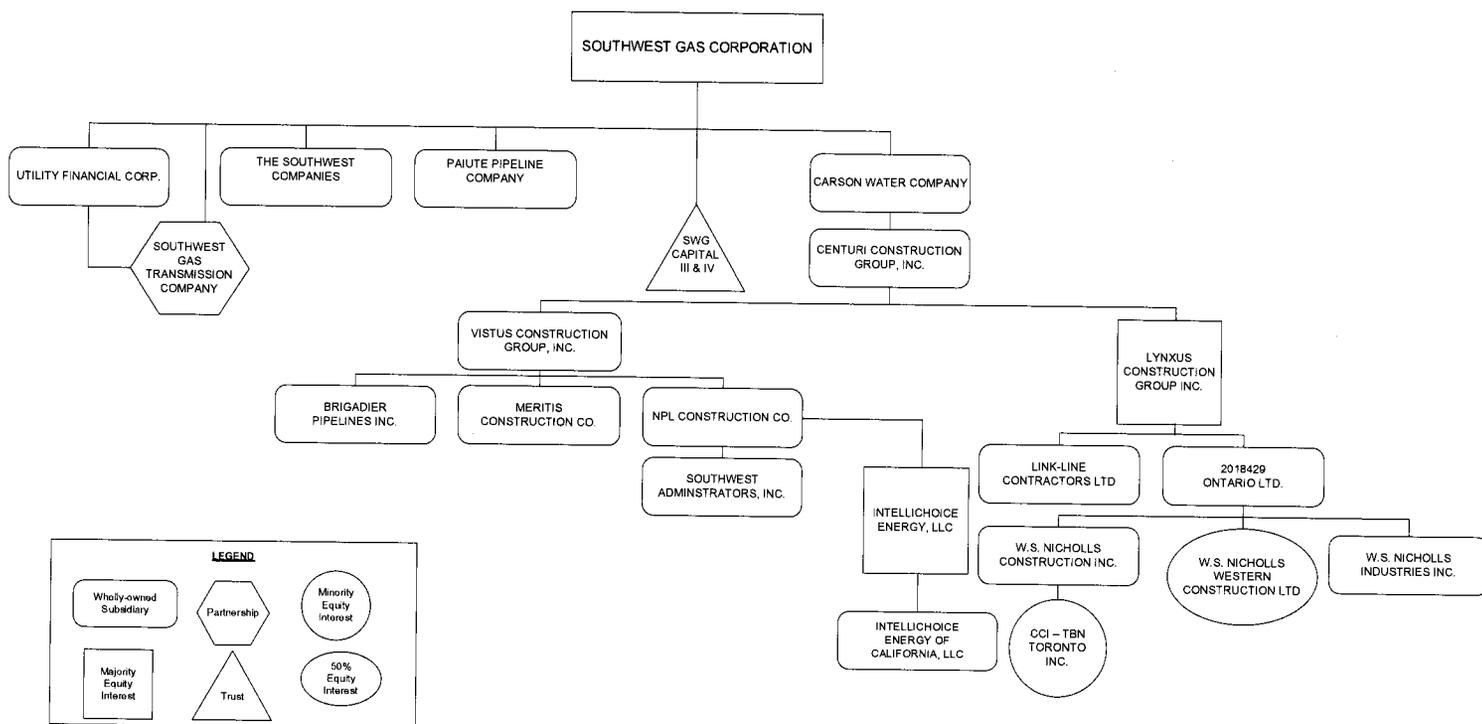
Respectfully submitted this 13<sup>th</sup> day of October, 2015.

SOUTHWEST GAS CORPORATION  
  
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(702) 252-7283 *facsimile*  
catherine.mazzeo@swgas.com  
  
*Attorney for Southwest Gas Corporation*

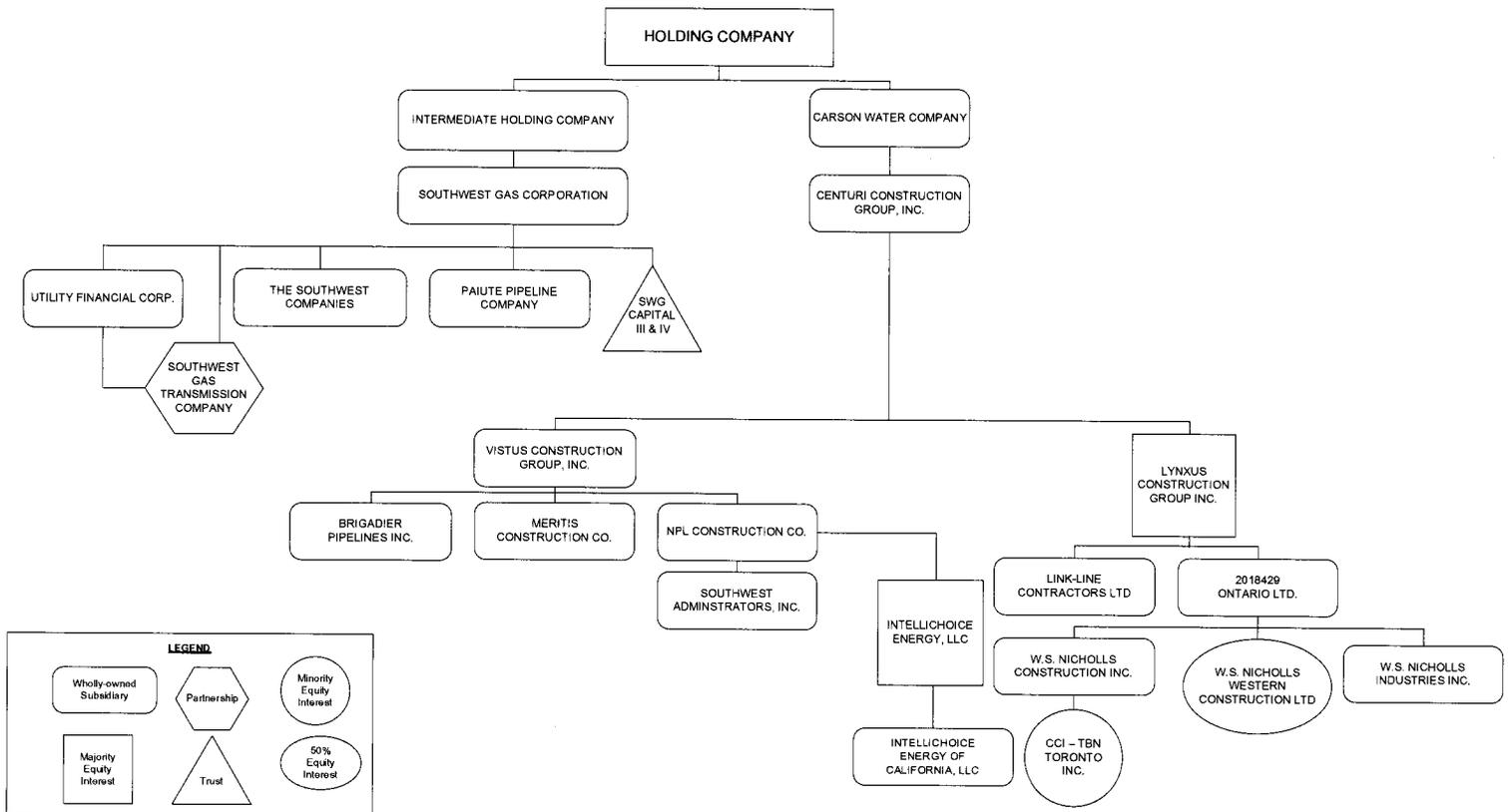
# **EXHIBIT A**

## **Organizational Structures Existing and Post-Reorganization**

EXISTING CORPORATE STRUCTURE



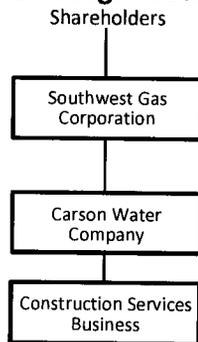
POST-REORGANIZATION CORPORATE STRUCTURE



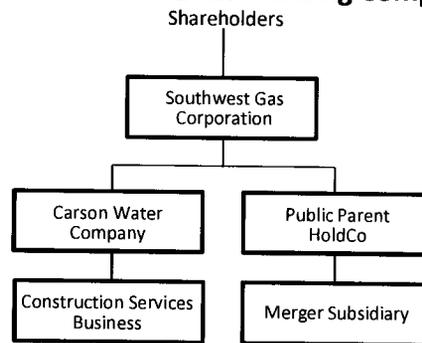
## **EXHIBIT B**

### **Process of Reorganization**

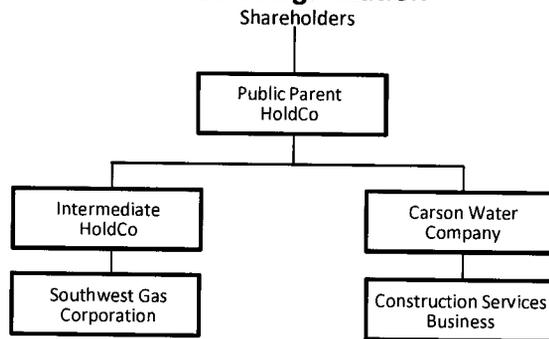
### Pre-Reorganization



### Formation of Parent Holding Company



### Post-Reorganization



## **EXHIBIT C**

### **Anticipated Officers and Directors**

**SOUTHWEST GAS CORPORATION**

**ANTICIPATED OFFICERS AND DIRECTORS FOR HOLDCO AND INTERMEDIATE HOLDCO**

**Officers**

---

John P. Hester	President and Chief Executive Officer
Roy R. Centrella	Senior Vice President/ Chief Financial Officer
Karen S. Haller	Senior President/General Counsel and Corporate Secretary

**Board of Directors**

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Michael J. Melarkey	Chairman
Robert L. Boughner	Director
Jose A. Cardenas	Director
Thomas E. Chestnut	Director
Stephen C. Comer	Director
LeRoy C. Hanneman, Jr.	Director
John P. Hester	Director
Anne L. Mariucci	Director
Jeffrey W. Shaw	Director
A Randall Thoman	Director
Thomas A. Thomas	Director
Terrence L. Wright	Director

## **EXHIBIT D**

**Actual Consolidated Capital Structure and Pro Forma Holding  
Company Capital Structure  
as of June 30, 2015**

**SOUTHWEST GAS CORPORATION  
CAPITAL STRUCTURE  
AS OF JUNE 30, 2015**  
(\$ in millions)

Southwest Gas Corporation Consolidated  
As of June 30, 2015 - SEC Form 10-Q

	\$	%
Equity <sup>1</sup>	\$ 1,569	50.4%
Debt <sup>2</sup>	1,542	49.6%
Total	<u>\$ 3,111</u>	<u>100.0%</u>



Pro forma Consolidated Holding Company  
As of June 30, 2015

	\$	%
Equity <sup>1</sup>	\$ 1,569	50.4%
Debt <sup>2</sup>	1,542	49.6%
Total	<u>\$ 3,111</u>	<u>100.0%</u>

Pro forma Holding Company - Parent Company  
As of June 30, 2015

	\$	%
Equity <sup>1</sup>	\$ 1,569	100.0%
Debt	-	0.0%
Total	<u>\$ 1,569</u>	<u>100.0%</u>

Southwest Gas  
Operating Utility Company  
(Regulated)

	\$	%
Equity	\$ 1,416	52.6%
Debt <sup>2</sup>	1,276	47.4%
Total	<u>\$ 2,692</u>	<u>100.00%</u>

Construction  
Services  
(Non-Regulated)

	\$	%
Equity <sup>1</sup>	\$ 153	36.4%
Debt <sup>2</sup>	266	63.6%
Total	<u>\$ 419</u>	<u>100.0%</u>

<sup>1</sup> includes redeemable noncontrolling interest

<sup>2</sup> includes current maturities of long-term debt