



**Southwest Gas**™  
HOLDINGS

# 2017 Third Quarter Earnings Conference Call

November 8, 2017



# Participants



**John Hester**  
President and CEO  
Southwest Gas Holdings



**Roy Centrella**  
SVP/CFO  
Southwest Gas Holdings



**Justin Brown**  
VP/Regulation & Public Affairs  
Southwest Gas Corporation



**Ken Kenny**  
VP/Finance/Treasurer  
Southwest Gas Holdings



# Safe Harbor Statement



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This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2017 expectations for our construction services and natural gas operations segments, as well as statements regarding our expansion projects and other investment opportunities.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2016 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

- The timing and amount of rate relief;
- Changes in operating expenses;
- Changes in rate design, infrastructure tracking mechanisms;
- Customer growth rates;
- Conditions in housing markets;
- The effects of regulation/deregulation;
- The impacts of construction activity at our construction services segment;
- The impacts from acquisitions;
- The impacts of stock market volatility; and
- Other factors discussed from time to time in our filings with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. The statements in this presentation are made as of the date hereof, even if subsequently made available on our Web site or otherwise. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.

# 2017 Third Quarter Highlights



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## Consolidated Results

- Recorded net income of \$10.2 million for the quarter (\$0.21 Basic EPS), a \$7.7 million increase over the same period in 2016
- Shareholders approved elimination of cumulative voting
- Acquired the residual 3.4% equity interest in Centuri in August 2017

## Natural Gas Segment

- Operating income increased \$15 million over third quarter 2016
- Added 32,000 customers over the twelve months ended September 30
- Achieved milestone of 2 million customers in November 2017
- Proposed expansion of service to Mesquite, Nevada

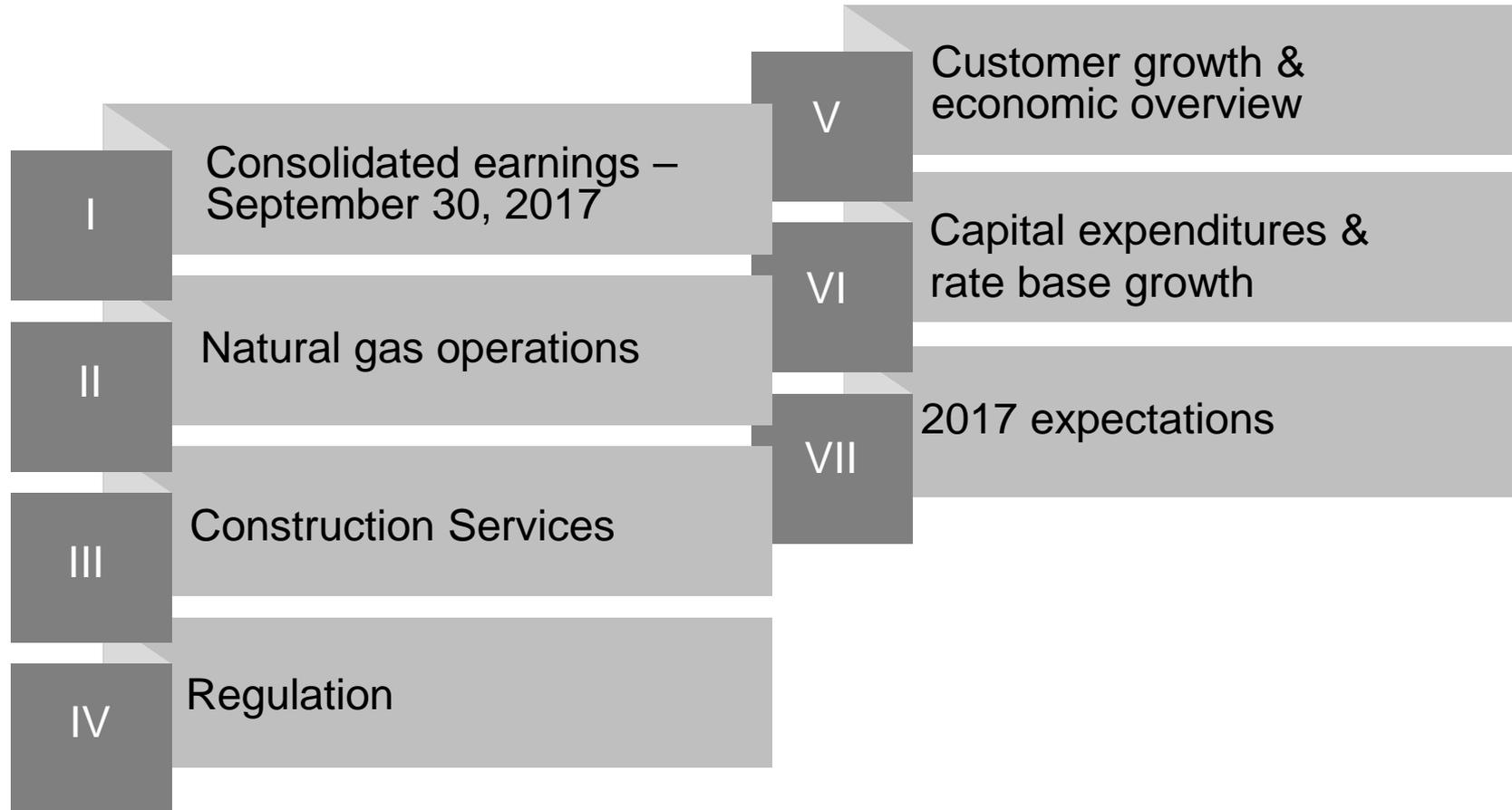
## Construction Services Segment

- Solid third quarter 2017 financial results
- Amended its credit and term loan facility, increasing borrowing capacity to \$450 million
- Completed acquisition of Neuco in November 2017

# Call Outline



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# Summary Operating Results

(In thousands, except per share amounts)



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	THREE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2017	2016	2017	2016
<b>Results of Consolidated Operations</b>				
Gas operations income (loss)	\$ (4,024)	\$ (12,405)	\$ 134,323	\$ 119,836
Construction services income	14,335	14,877	29,010	33,144
Other - corporate and administrative	(107)	-	(777)	-
Net income	<u>\$ 10,204</u>	<u>\$ 2,472</u>	<u>\$ 162,556</u>	<u>\$ 152,980</u>
Basic earnings per share	<u>\$ 0.21</u>	<u>\$ 0.05</u>	<u>\$ 3.42</u>	<u>\$ 3.22</u>
Diluted earnings per share	<u>\$ 0.21</u>	<u>\$ 0.05</u>	<u>\$ 3.39</u>	<u>\$ 3.20</u>
Average shares outstanding	47,628	47,481	47,553	47,442
Average shares outstanding (assuming dilution)	47,986	47,830	47,896	47,787

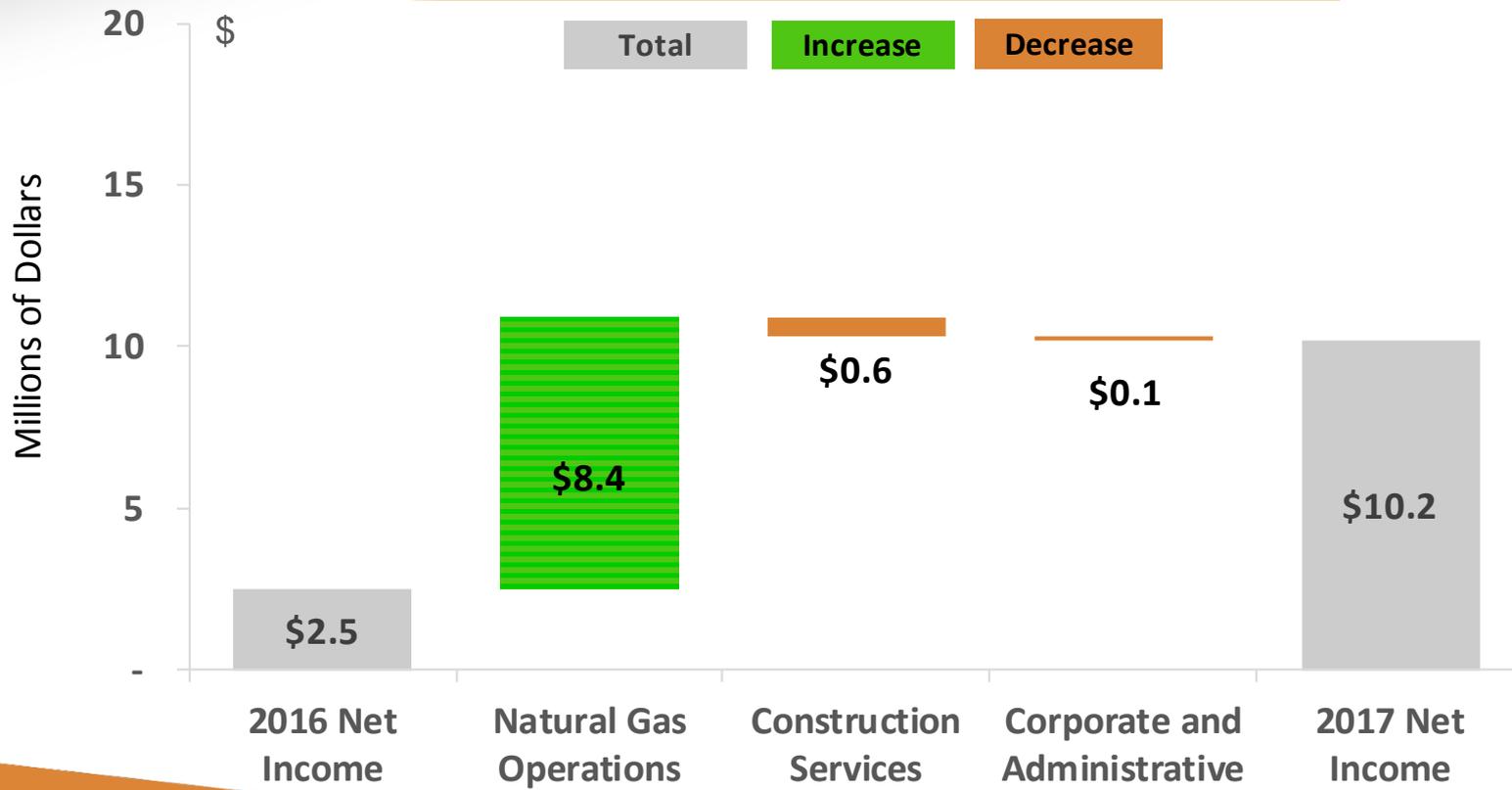
# Consolidated Net Income

Three Months Ended September 30, 2017



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**Total Increase - \$7.7 million**



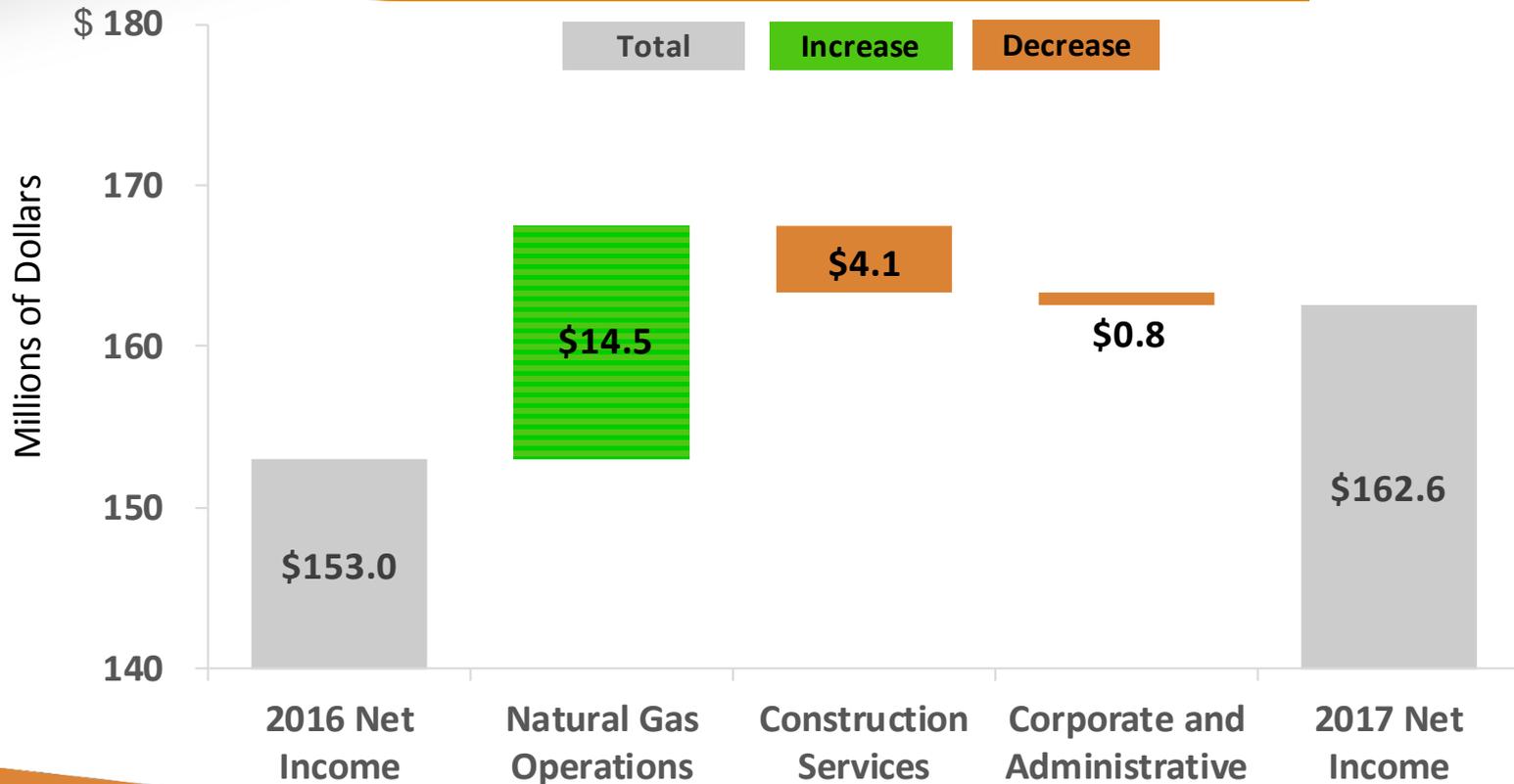
# Consolidated Net Income

Twelve Months Ended September 30, 2017



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Total Increase - \$9.6 million



# Net Income

Three Months Ended September 30, 2017

Natural Gas Operations



**SOUTHWEST GAS**

**Total Increase - \$8.4 million**



# Net Income

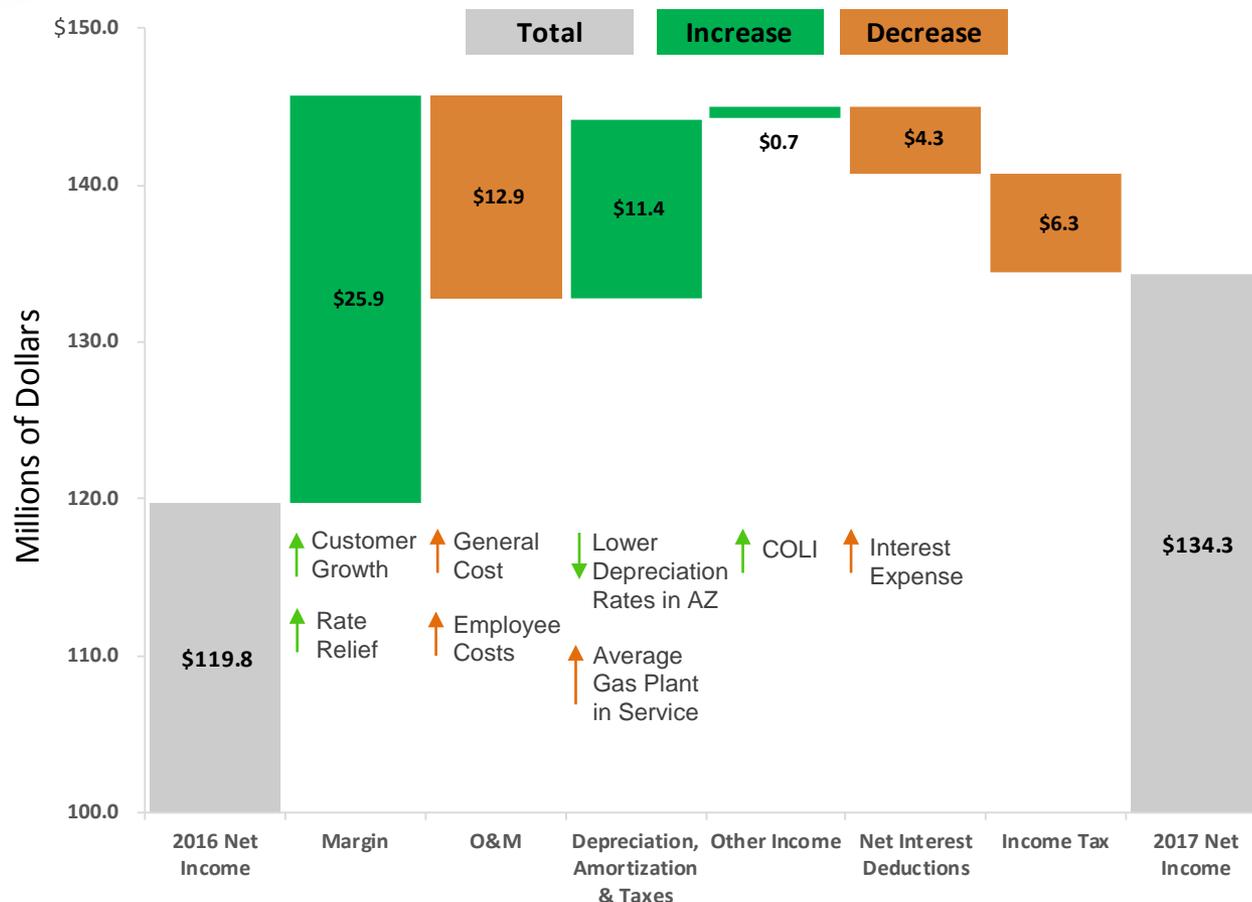
Twelve Months Ended September 30, 2017



**SOUTHWEST GAS**

Natural Gas Operations

**Total Increase - \$14.5 million**



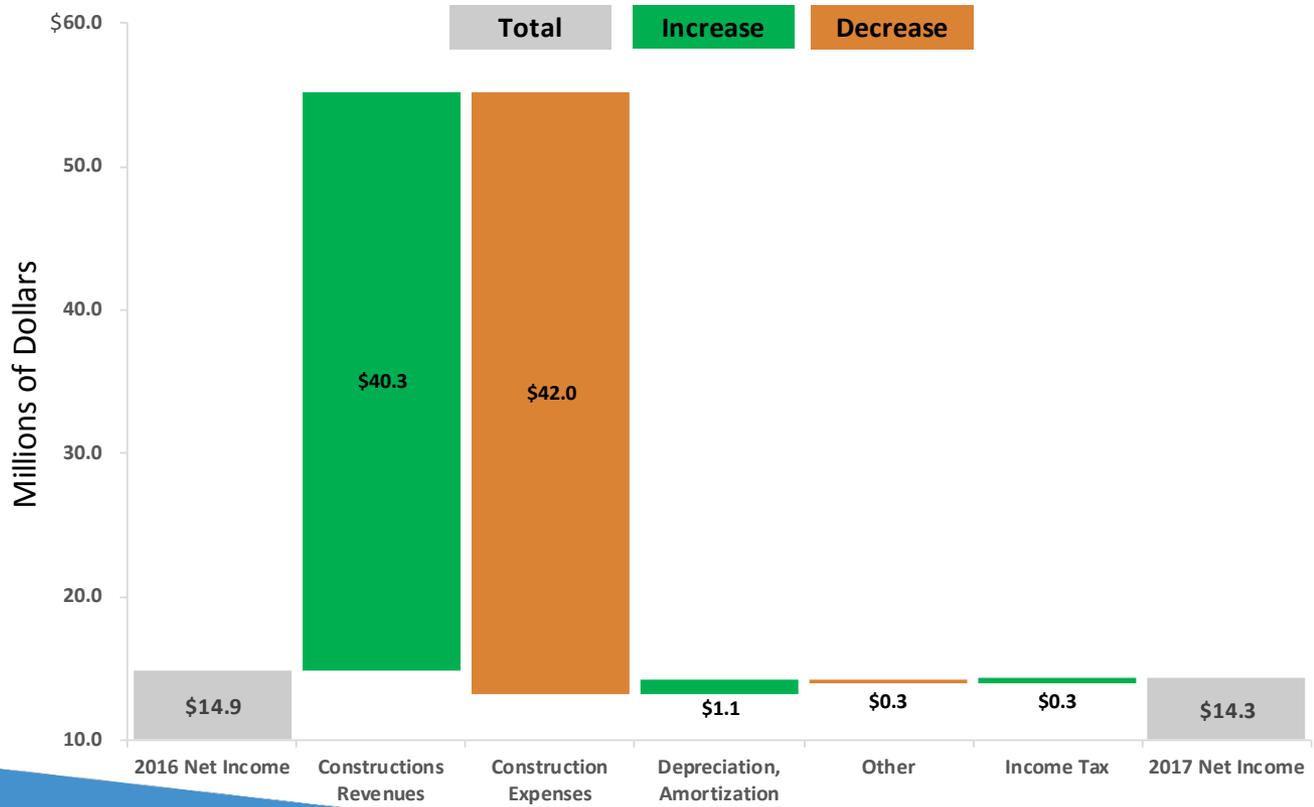
# Net Income

## Three Months Ended September 30, 2017



### Construction Services

**Total Decrease - \$600,000**

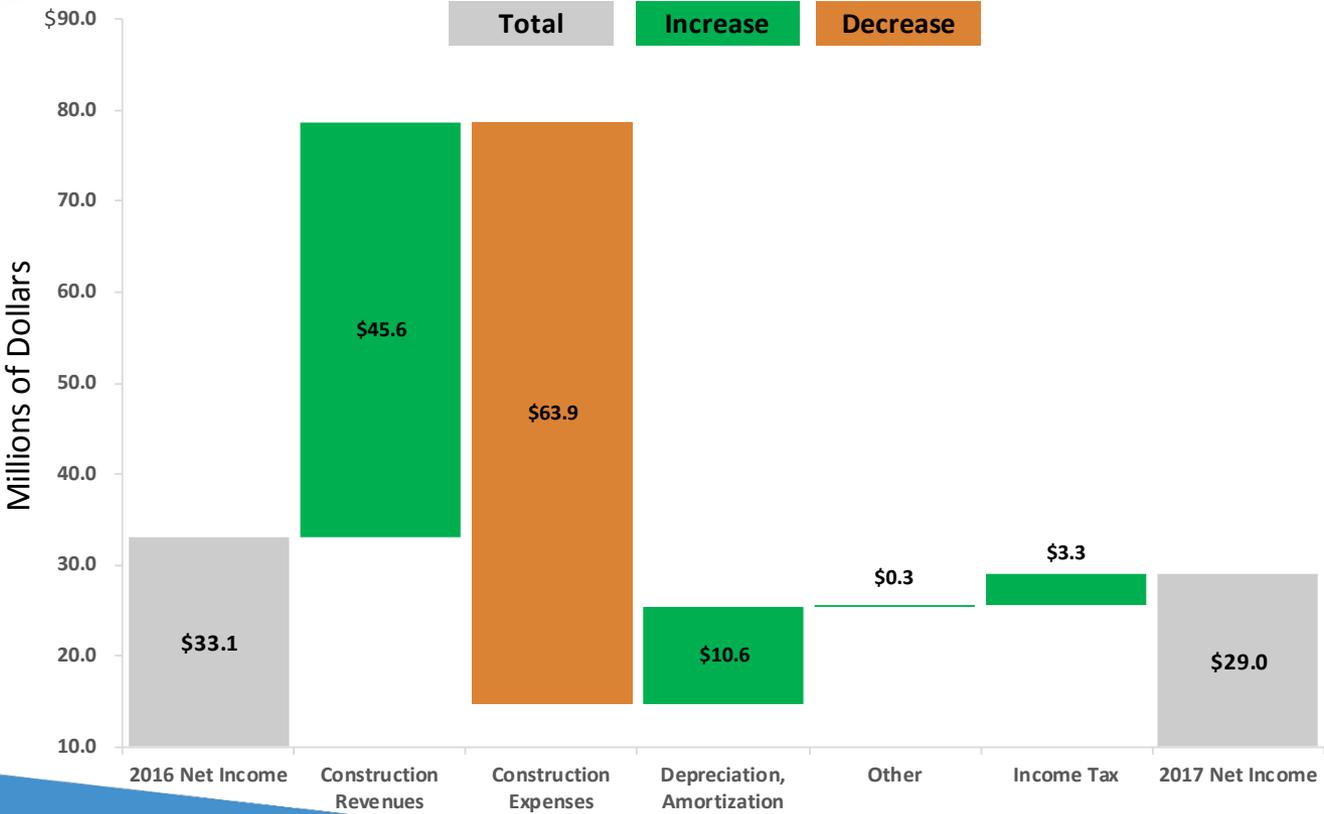


# Net Income

## Twelve Months Ended September 30, 2017 Construction Services



**Total Decrease - \$4.1 million**



# Highlights – Neuco Acquisition

## Construction Services



- Completed November 2017
- Purchase price of \$95 million
- Headquartered in Lawrence, MA
- Founded in 1972
- Specializes in underground utility construction and maintenance services for natural gas utilities in New England (MA, ME, NH, VT)
- Alignment with Centuri's Strategic Plan

# Highlights – Neuco Acquisition

## Construction Services



### Operations

- Over 300 non-union personnel
- Installed over 115 miles of gas distribution main and thousands of service lines in 2016

### Financial

- 2016 Revenues - \$95 million
- 2016 Operating Income - \$11 million

### Principal Customers

- National Grid
- Unitil Electric & Gas
- Liberty Gas Utilities



# Regulation Key Highlights

## Natural Gas Operations



### Rate Relief

- Arizona Rate Case Settlement
- Next California Rate Case
- Next Nevada Rate Case

### Infrastructure Replacement Programs

- Arizona Customer-Owned Yard Line (COYL) program
- Arizona Vintage Steel Pipe Replacement (VSP) program
- Nevada Gas Infrastructure Replacement (GIR) program

### Expansion Projects

- Filed for preapproval to extend natural gas services to Mesquite, Nevada (SB 151)
- Liquefied Natural Gas (LNG) facility in Arizona – construction proceeding
- 2018 expansion project – Paiute Pipeline Company (FERC regulated)

# Regulation – Rate Relief

## Natural Gas Operations



**SOUTHWEST GAS**

### Arizona Rate Case Settlement

- New rates effective April 1, 2017
- Projected impact to operating income:
  - 2017 - \$45 million
  - 2018 - \$16 million
- Rate case moratorium until May 2019

### Next Nevada Rate Case

- Commitment to file before June 2018
  - Currently in the test period
  - New rates expected to be effective in January 2019

### Next California Rate Case

- CPUC approved Southwest's request to extend rate case cycle
- Expected to file next rate case by September 2019
- Continuation of post test year annual attrition increases of 2.75% through 2020

# Regulation - Infrastructure Replacement Programs



## Natural Gas Operations

### Arizona COYL

- \$35.2 million of cumulative expenditures as of December 31, 2016
  - \$23.1 million included in authorized rate base with recovery embedded in the new rates
  - \$12.1 million included as part of current mechanism (2016 expenditures)
- ACC approved surcharge revenue of \$1.8 million effective June 2017 (\$12.1 million of expenditures)

### Arizona VSP

- Approved in general rate case and targeting partial year expenditures of \$27 million in 2017
- Targeting VSP replacement projects of \$100 million in 2018

# Regulation - Infrastructure Replacement Programs



## Natural Gas Operations

### Nevada GIR

- PUCN authorized \$57.3 million replacement work for 2017
- PUCN approved surcharge revenue of approximately \$4.5 million effective January 2017
- PUCN authorized \$65.7 million replacement work for 2018
- Cumulative net plant of \$99.8 million as of August 31, 2017
- In September 2017 Southwest Gas filed a GIR Rate Application
  - Proposed an \$8.7 million surcharge (\$4.2 million of incremental revenue) to be effective January 1, 2018
  - Stipulation agreement with PUCN Staff
  - Expected to be approved by the PUCN in December 2017

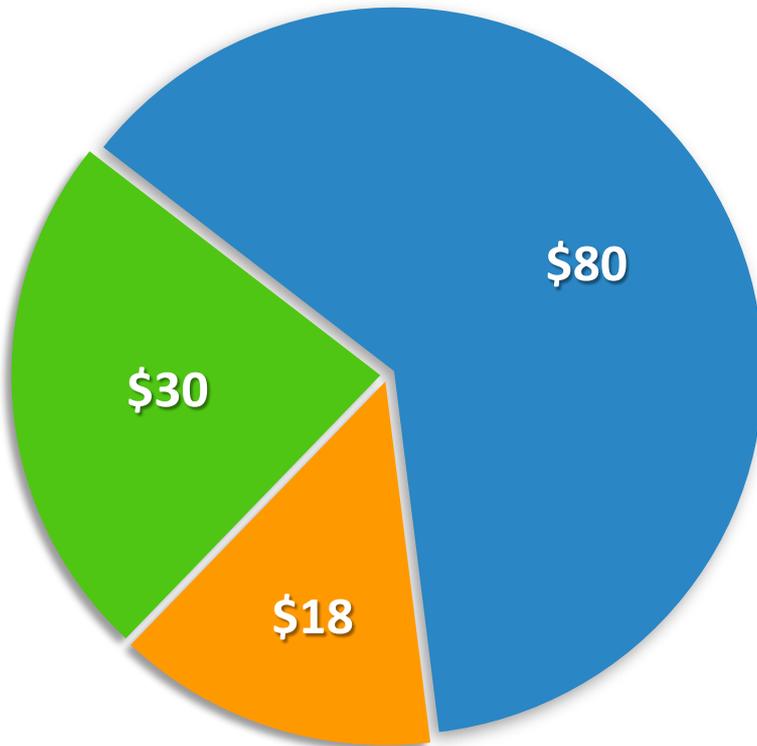
# Regulation – Expansion Projects

## Natural Gas Operations



**SOUTHWEST GAS**

\$ in millions



### PAIUTE PIPELINE COMPANY EXPANSION

- Proposed \$18 million project consists of approximately 8.4 miles of additional pipeline infrastructure
- Paiute filed a formal FERC certificate application in July 2017
- The new facility is expected to be in place by the end of 2018

### ARIZONA LNG FACILITY

- Proposed \$80 million, 233,000 dekatherm LNG facility
- Construction underway, \$22 million spent through September 2017
- Construction expected to be completed by end of 2019

### MESQUITE, NEVADA EXPANSION

- Filed for pre-approval to expand natural gas services to Mesquite, Nevada, in accordance with the SB 151 regulations
- Proposed estimated cost of \$30 million

# Customer Growth Breakdown

Natural Gas Operations  
(In thousands)



	Twelve Months Ended September 30,	
	2016	2017
Beginning period	1,938	1,967
Net Customer Adds	29	32
Ending period	<u>1,967</u>	<u>1,999</u>

**Note: Achieved milestone of 2 million customers in November 2017**

# Economic Overview – Service Area



## Natural Gas Operations

	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>September 2016</u>	<u>September 2017</u>	<u>September 2016</u>	<u>September 2017</u>
<b>Southern California</b> <sup>1</sup>	6.2%	5.4%	2.3%	2.5%
<b>Southern Nevada</b> <sup>2</sup>	5.6%	5.2%	0.9%	2.6%
<b>Northern Nevada</b> <sup>3</sup>	5.2%	4.5%	-0.1%	0.9%
<b>Southern Arizona</b> <sup>4</sup>	5.2%	4.2%	2.1%	-0.6%
<b>Central Arizona</b> <sup>4</sup>	4.8%	4.0%	2.5%	1.7%

<sup>1</sup> [Source: State of California Employment Development Department, California Labor Market Review, <http://www.labormarketinfo.edd.ca.gov>]

<sup>2</sup> [Source: Nevada Department of Employment, Training and Rehabilitation (DETR), Economy In Brief, <http://nevadaworkforce.com>]

<sup>3</sup> [Source: Nevada DETR, Data Search: Total Employment (Carson City, Churchill, Douglas, Elko, Humbolt, Lyon, and Pershing Counties, <http://nevadaworkforce.com>]

<sup>4</sup> [Source: Arizona Office of Employment & Population Statistics, Employment Report, <https://laborstats.az.gov/>]

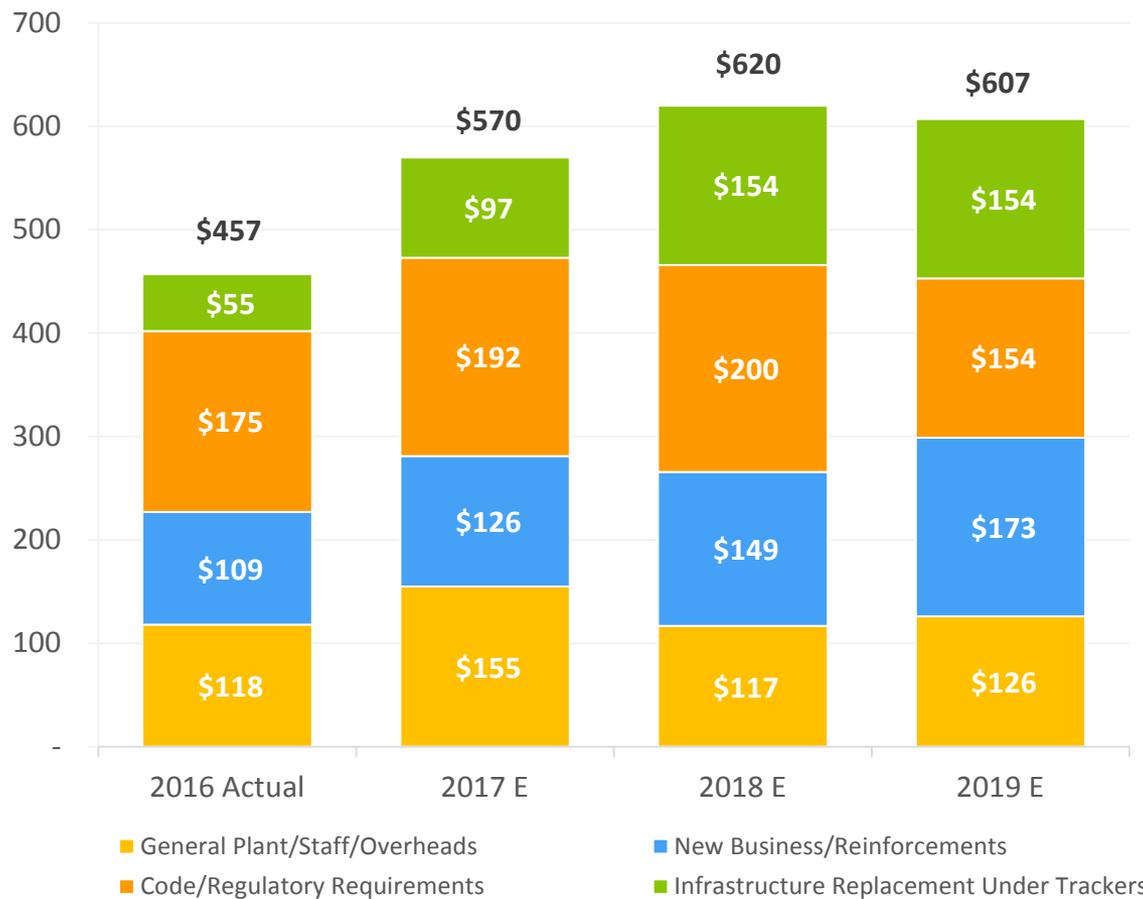
# Capital Expenditures

## Natural Gas Operations

(In millions)



**SOUTHWEST GAS**

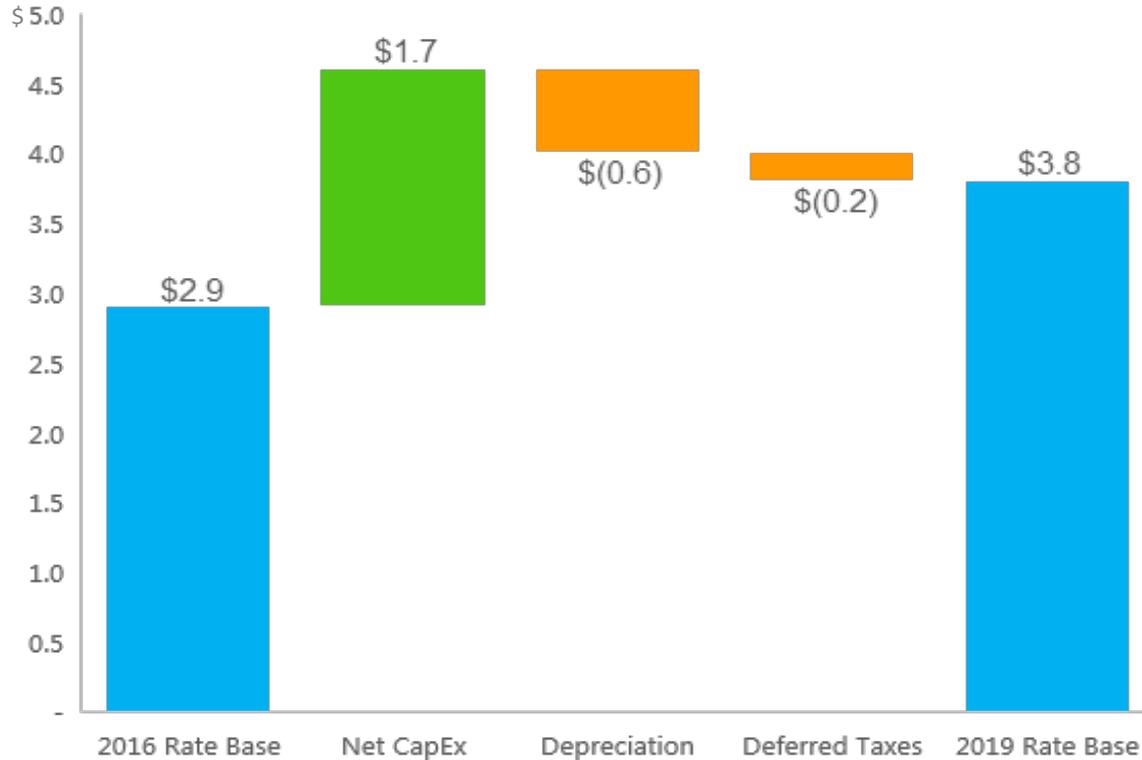


- 2017-2019 Estimate \$1.6 - \$1.8 billion
- Chart reflects upper end of estimated range of capital expenditures for 2017-2019

# Projected Rate Base Growth

## Natural Gas Operations

(In billions)



- Projecting 9% CAGR in rate base over next 3 years
- The midpoint of the estimated range of the capital expenditures over this period is \$1.7 billion

Rate base amounts reflect estimated total investment in facilities necessary to provide utility service. This is different than our authorized rate base, which is the rate base investment that has been approved by our regulatory bodies and that is reflected in rates.

# 2017 Expectations Update



## Natural Gas Operations



- Operating margin to increase nearly 3%
  - Previously approximately 2% increase
- Operating income expected to increase by 12% – 14%
  - Previously 11% - 13% increase
- Interest expense expected to increase by \$2 million - \$3 million compared to 2016
  - Previously approximately \$2 million increase
- Other previous expectations are reaffirmed

# 2017 Expectations Update



## Construction Services



- Revenue anticipated to increase 3%-5%
  - Previously 2%-5% increase
- Operating income estimated at nearly 5% of revenues
- Net interest deductions of \$7.5 million
  - Previously \$7 million
- Expectations exclude all impacts from the Neuco acquisition
  - 4<sup>th</sup> quarter Neuco earnings expected to partially offset acquisition costs

# APPENDIX



# Business Segments & Net Income

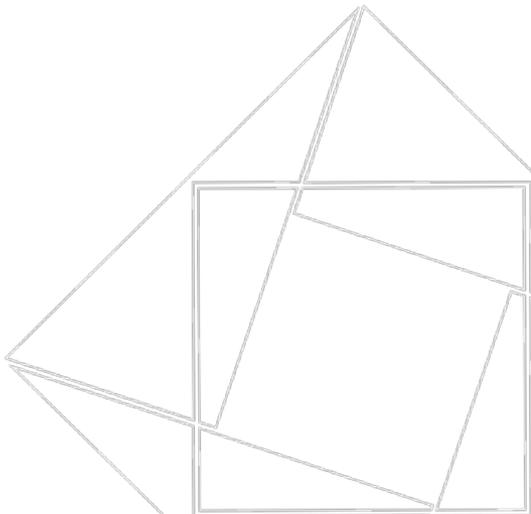
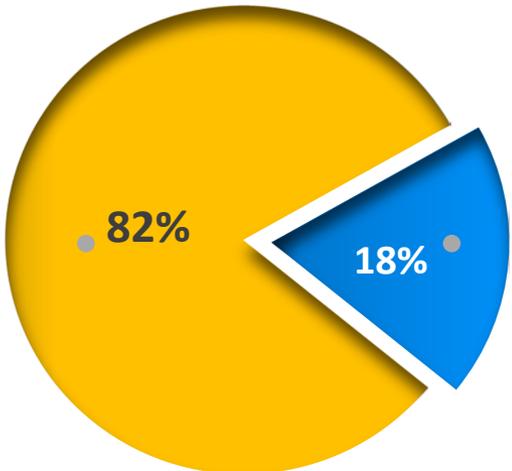


Natural gas operations

Construction services



\$163MM  
TMTD 9/30/17 Net Income



# Regional Leader in Natural Gas Distribution



Headquartered in  
**Las Vegas, NV**

Largest distributor of natural gas in **Arizona** and **Nevada**; Distributes and transports natural gas in parts of **California**



**1,999,000** customers in service territory at 9/30/2017

Over **99%** of customers are residential and small commercial



# Centuri Construction Group

## Construction Services



Headquartered in  
**Phoenix, AZ**

Operates in several  
major markets across  
**U.S.** and **Canada**



One of North America's  
largest providers of  
**utility** and **energy**  
**construction services**



# Stable Customer Base

## Natural Gas Operations

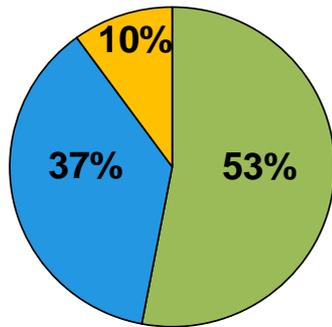


**SOUTHWEST GAS**

### TMTD September 30, 2017 Customer & Operating Margin Distribution

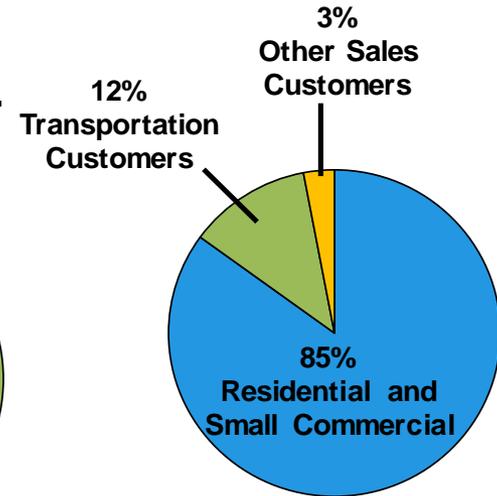
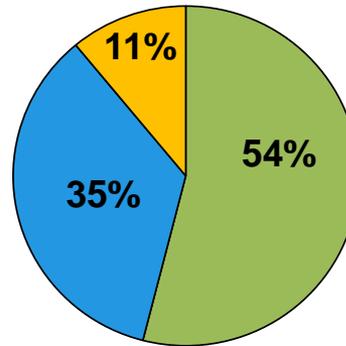
#### By State

Customers



- Arizona
- Nevada
- California

Margin



Consistent trends year over year

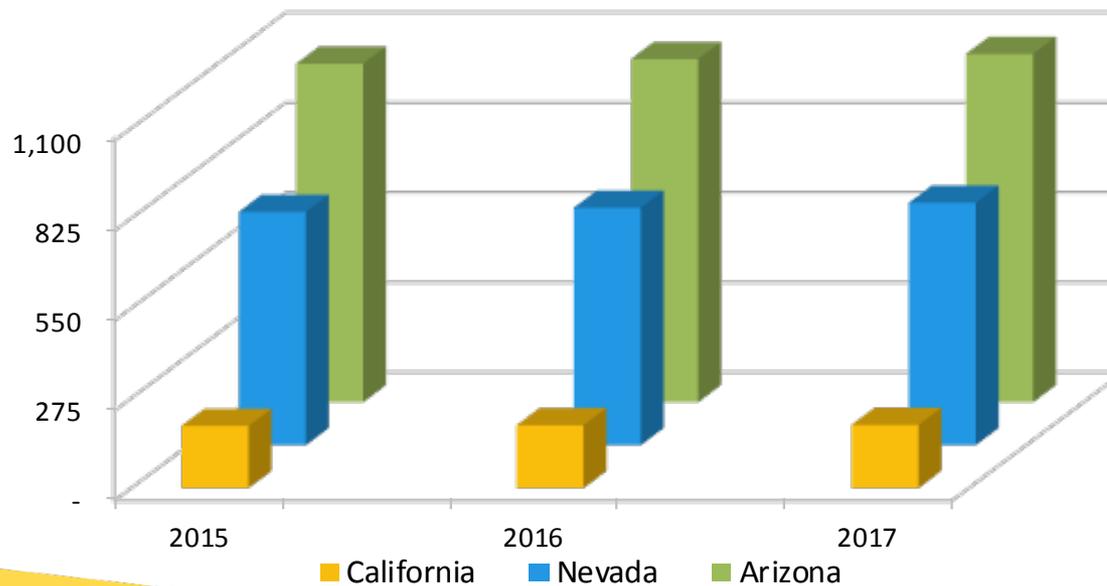
# Customers by State

Natural Gas Operations  
(In thousands)



As of September 30,

	2015	2016	2017
Arizona	1,035	1,049	1,065
Nevada	713	726	741
California	190	192	193
<b>Total</b>	<b>1,938</b>	<b>1,967</b>	<b>1,999</b>



# Summary Operating Results

## Natural Gas Operations

(In thousands)



**SOUTHWEST GAS**

### THREE MONTHS ENDED SEPTEMBER 30,

#### **Results of Natural Gas Operations**

	<u>2017</u>	<u>2016</u>
Gas operating revenues	\$ 213,059	\$ 200,179
Net cost of gas sold	45,539	39,056
Operating margin	<u>167,520</u>	<u>161,123</u>
Operations and maintenance expense	102,215	102,438
Depreciation and amortization	46,194	56,436
Taxes other than income taxes	14,046	12,480
Operating income (loss)	<u>5,065</u>	<u>(10,231)</u>
Other income (deductions)	3,081	2,521
Net interest deductions	<u>17,421</u>	<u>16,364</u>
Income (loss) before income taxes	<u>(9,275)</u>	<u>(24,074)</u>
Income tax expense (benefit)	<u>(5,251)</u>	<u>(11,669)</u>
Segment net income (loss)	<u><u>\$ (4,024)</u></u>	<u><u>\$ (12,405)</u></u>

# Summary Operating Results

Natural Gas Operations  
(In thousands)



TWELVE MONTHS ENDED SEPTEMBER 30,

2017

2016

## Results of Natural Gas Operations

Gas operating revenues	\$ 1,276,308	\$ 1,376,388
Net cost of gas sold	334,888	460,836
Operating margin	941,420	915,552
Operations and maintenance expense	413,140	400,222
Depreciation and amortization	212,693	228,609
Taxes other than income taxes	56,221	51,810
Operating income	259,366	234,911
Other income (deductions)	10,308	9,615
Net interest deductions	69,464	65,146
Income before income taxes	200,210	179,380
Income tax expense	65,887	59,544
Segment net income	\$ 134,323	\$ 119,836

# Summary Operating Results

## Construction Services

(In thousands)



	THREE MONTHS ENDED SEPTEMBER 30,	
	2017	2016
Construction revenues	\$ 380,094	\$ 339,790
Construction expenses	342,629	300,611
Depreciation and amortization	12,335	13,409
Operating income	25,130	25,770
Other income (deductions)	(210)	44
Net interest deductions	1,962	1,794
Income taxes	8,407	8,708
Noncontrolling interests	216	435
Segment net income	\$ 14,335	\$ 14,877

# Summary Operating Results

## Construction Services

(In thousands)



	TWELVE MONTHS ENDED SEPTEMBER 30,	
	2017	2016
Construction revenues	\$ 1,173,576	\$ 1,127,982
Construction expenses	1,073,090	1,009,188
Depreciation and amortization	47,764	58,368
Operating income	52,722	60,426
Other income (deductions)	1,187	1,246
Net interest deductions	6,813	6,738
Income taxes	17,402	20,711
Noncontrolling interests	684	1,079
Segment net income	\$ 29,010	\$ 33,144

# Purchased Gas Adjustment (PGA) Balances



Natural Gas Operations  
(In thousands)

	September 30, 2017	December 31, 2016	September 30, 2016
Arizona	\$ 1,324	\$ (20,349)	\$ (34,425)
Northern Nevada	4,906	(3,339)	(10,326)
Southern Nevada	(13,711)	(66,788)	(77,402)
California	(1,260)	2,608	(1,246)
Total Receivable/(Payable)	<u>\$ (8,741)</u>	<u>\$ (87,868)</u>	<u>\$ (123,399)</u>

# Regulation – AZ Rate Case

## Natural Gas Operations



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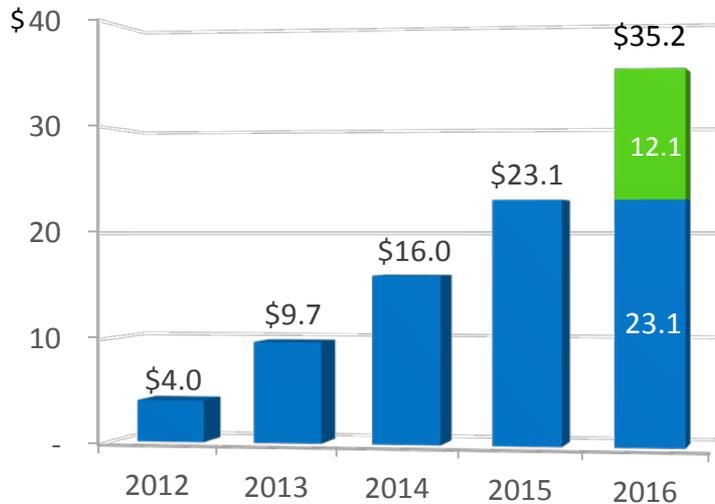
<b>Arizona General Rate Case</b>	<b>Requested</b>	<b>Settlement</b>
Rate Relief	\$32 Million	\$16 Million
Depreciation Expense	(\$42 Million)	(\$45 Million)
Rate Base	\$1.34 Billion	\$1.32 Billion
Return on Equity	10.25%	9.50%
Capital Structure - Equity Ratio	51.7%	51.7%
Rate Case Moratorium		May 1, 2019
Full Revenue Decoupling	✓	✓
Expanded Customer-Owned Yard Line Program	✓	✓
Vintage Steel Pipe Replacement Program	✓	✓
Property Tax Tracker	✓	✓
LNG Facility Cost Recovery	✓	✓

# Regulation – Infrastructure Replacement Programs

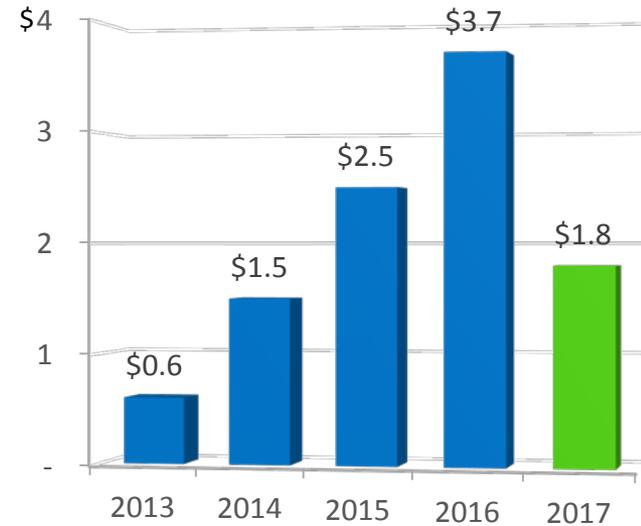


Arizona COYL program first began in 2012, was continued and expanded with rate case, and reset as of January 1, 2016

Cumulative COYL Capital Expenditures  
As of December 31  
(\$ in millions)



Annual COYL Surcharge  
As of June 1  
(\$ in millions)



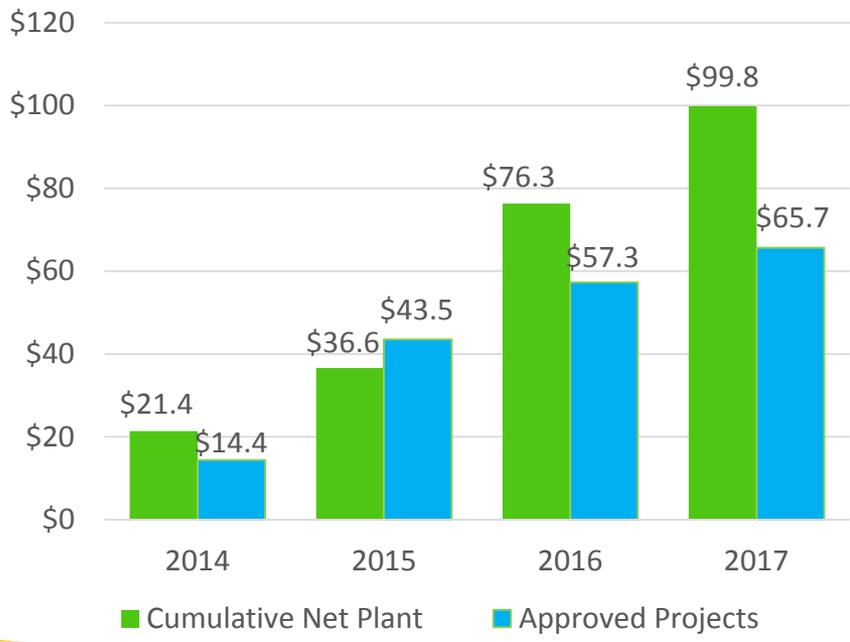
- Expenditures included in authorized rate base and recovery embedded in new rates
- Current COYL program

# Regulation – Infrastructure Replacement Programs

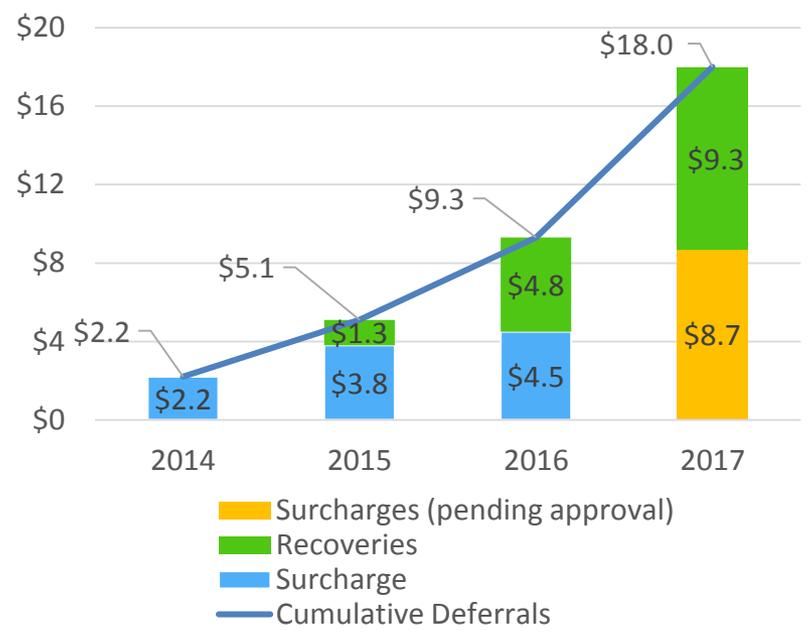


## Nevada Gas Infrastructure Replacement (GIR)

GIR Approved Projects and Cumulative Net Plant (\$ in millions)



GIR Deferral Balances, Recoveries and Surcharge As of August 31 (surcharges effective January 1 of following year) (\$ in millions)



# Authorized Rate Base and Rates of Return

## Natural Gas Operations



<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity</u>
Arizona	\$ 1,324,902	7.42 %	9.50 %
Southern Nevada	825,190	6.46	10.00
Northern Nevada	115,933	7.88	9.30
Southern California	159,277	6.83	10.10
Northern California	67,620	8.18	10.10
South Lake Tahoe	25,389	8.18	10.10
Paiute Pipeline Company (1)	87,158	8.46	11.00

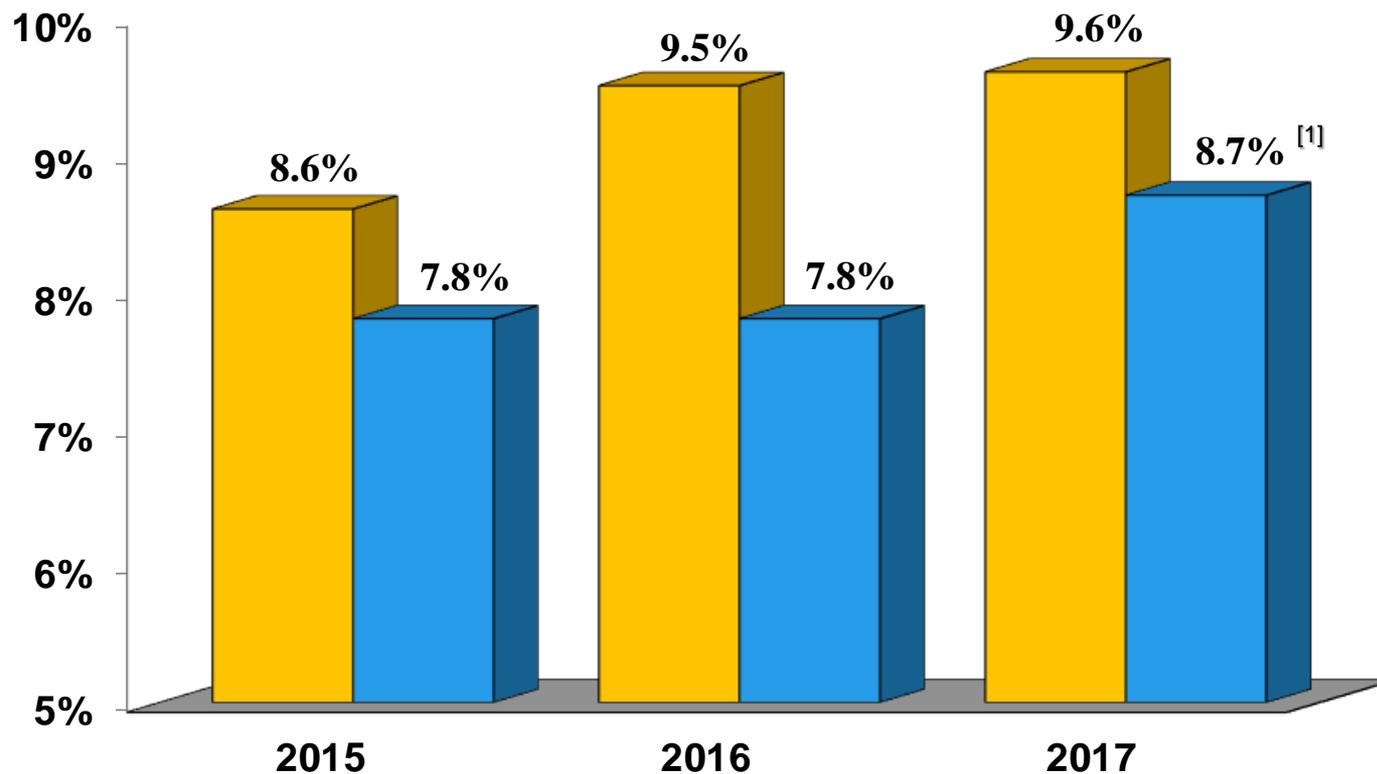
(1) Estimated amounts based on rate case settlement.

# Return on Common Equity

Twelve months ended September 30,



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- Return on Common Equity - Total Company
- Return on Common Equity - Gas Operations

[1] For the twelve months ended June 30, 2017, the ROE - Gas Operations was 8.1%.

# Consolidated Capital Structure

(In millions)

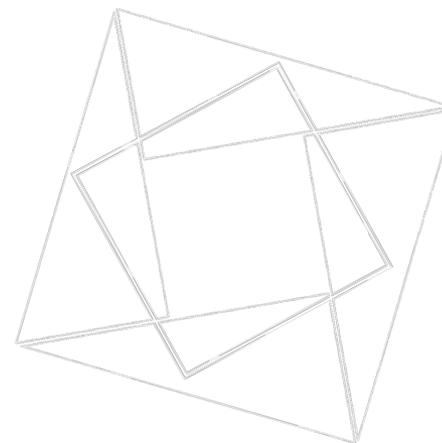
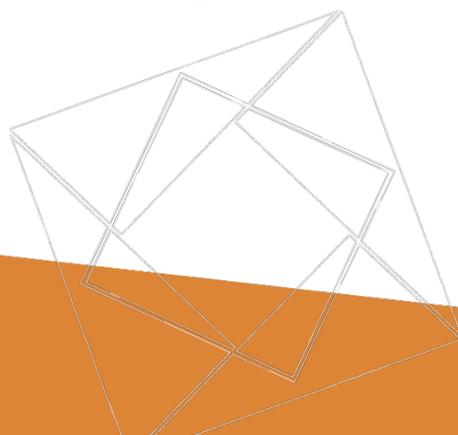


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<b>Capitalization at September 30,</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Equity<sup>1</sup></b>	\$ 1,361	\$ 1,452	\$ 1,562	\$ 1,640	\$ 1,713
<b>Long-Term Debt<sup>2</sup></b>	1,291	1,449	1,560	1,643	1,761
<b>Total Permanent Capital</b>	<b>\$ 2,652</b>	<b>\$ 2,901</b>	<b>\$ 3,122</b>	<b>\$ 3,283</b>	<b>\$ 3,474</b>
<b>Capitalization ratios</b>					
<b>Equity<sup>1</sup></b>	51.3%	50.1%	50.0%	50.0%	49.3%
<b>Long-Term Debt<sup>2</sup></b>	48.7%	49.9%	50.0%	50.0%	50.7%
<b>Total Permanent Capital</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

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

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



# Investment Grade Credit Ratings



## Southwest Gas Holdings, Inc.

	Moody's	S&P	Fitch
Issuer Rating	Baa1	BBB+	BBB+
Outlook	Stable	Stable	Stable

## Southwest Gas Corporation

	Moody's	S&P	Fitch
Issuer Rating	A3	BBB+	A-
Senior Unsecured	A3	BBB+	A
Outlook	Stable	Stable	Stable

# Dividend Growth



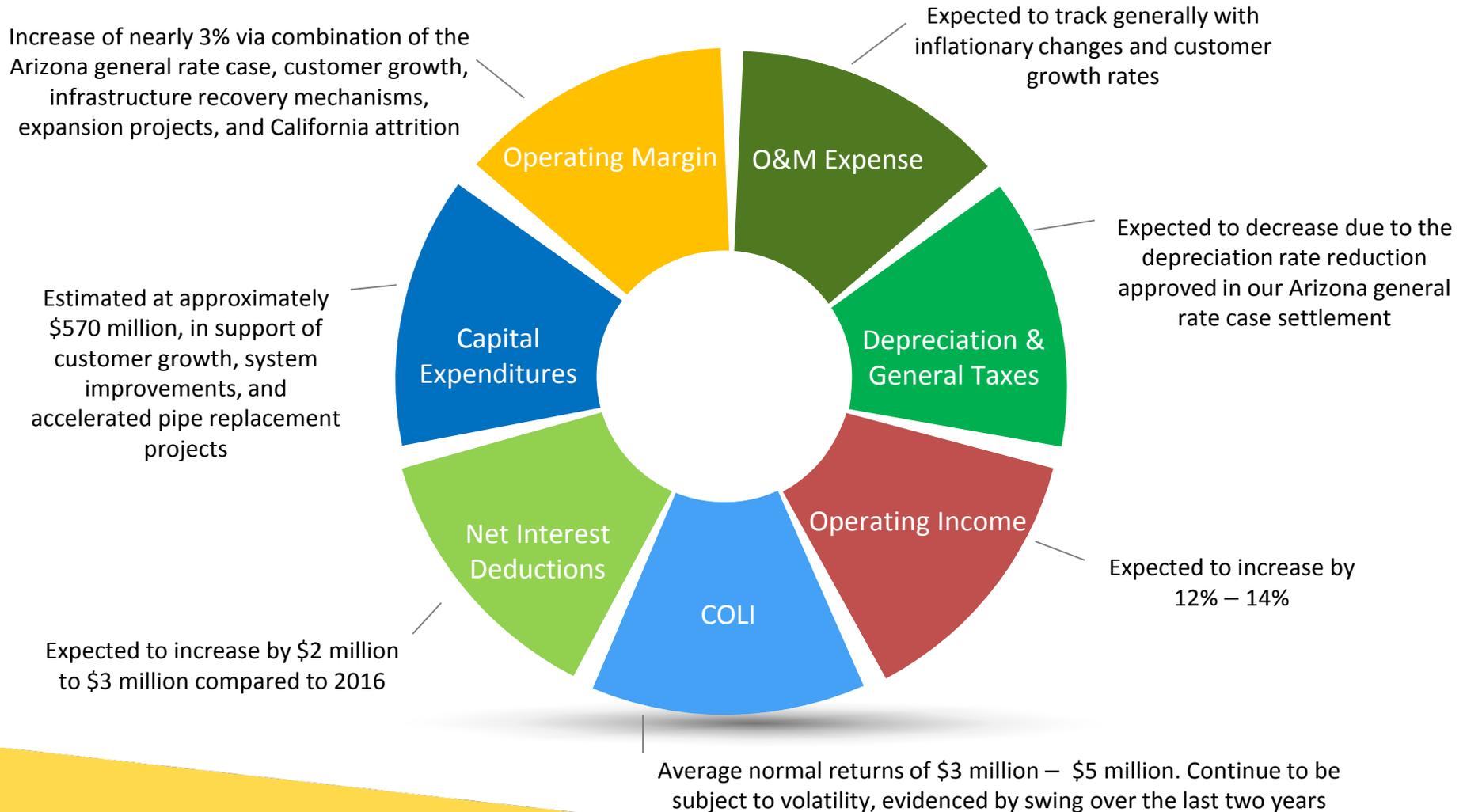
CAGR = compound annual growth rate

# 2017 Expectations

## Natural Gas Operations

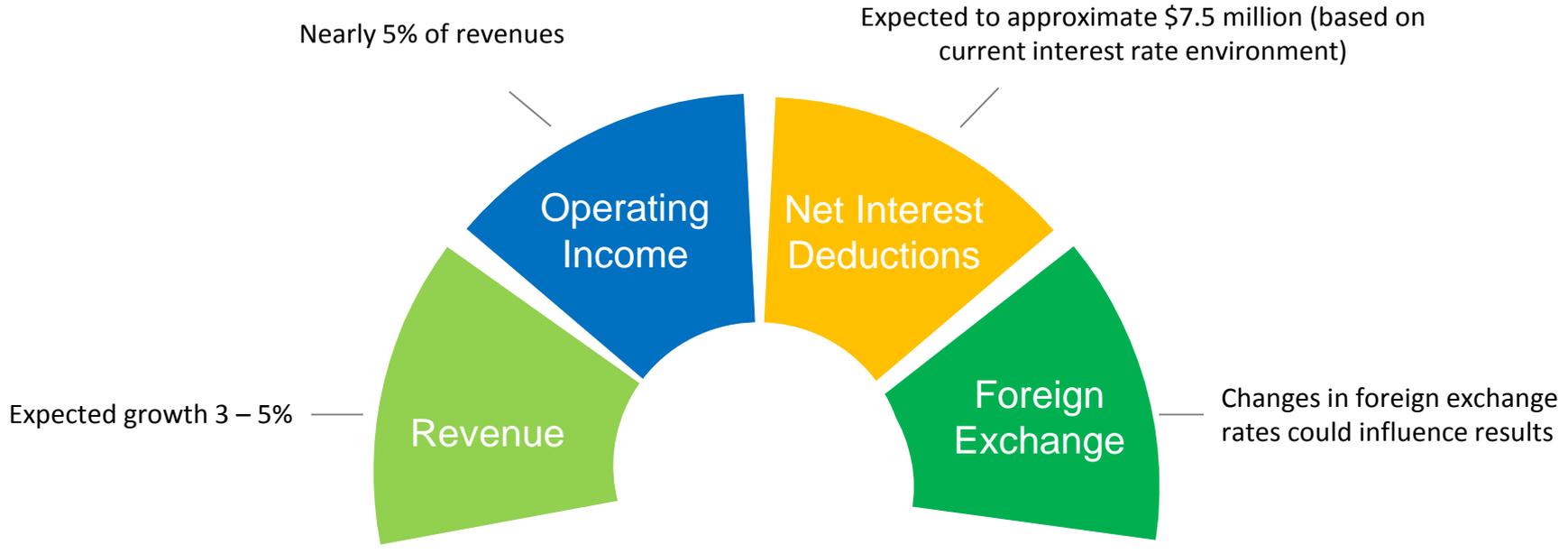


**SOUTHWEST GAS**



# 2017 Expectations

## Construction Services



Expectations exclude all impacts from the Neuco acquisition. The 4<sup>th</sup> quarter Neuco earnings are expected to partially offset acquisition costs.