

2018 Mid-Year Earnings Conference Call

August 9, 2018



Southwest Gas™
HOLDINGS

Participants



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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 2018 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 2017 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.

2018 Highlights



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Consolidated Results

- E.P.S. of \$4.29 for 12 months ended June 2018
- Dividend increased for the 12th straight year (\$1.98 to \$2.08 annually)

Natural Gas Segment

- Added 33,000 net new customers over the past 12 months
- Filed Nevada general rate case for \$32.5 million
- Filed Gas Infrastructure Replacement Application with annualized revenue requirement of \$22 million
- Received order from PUCN approving expansion to Mesquite, Nevada

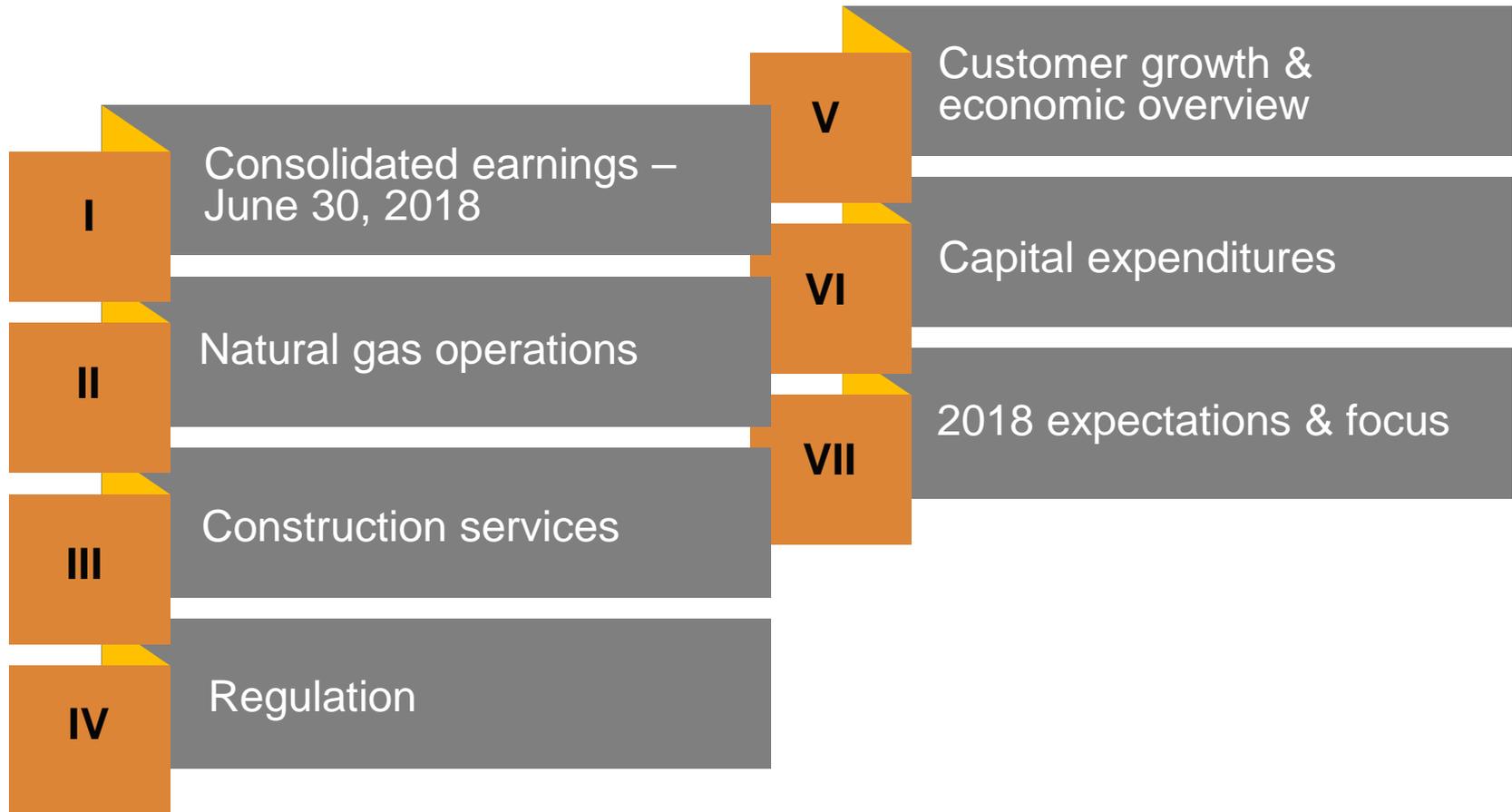
Construction Services Segment

- Quarterly revenues increased \$94.9 million
- Settlement of \$9 million associated with a 2017 water pipe replacement project
- Net income for 12 months of \$45.2 million
- Neuco acquisition exceeding expectations
- Enthusiastic about full-year Centuri performance

Call Outline



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Summary Operating Results

(In thousands, except per share amounts)



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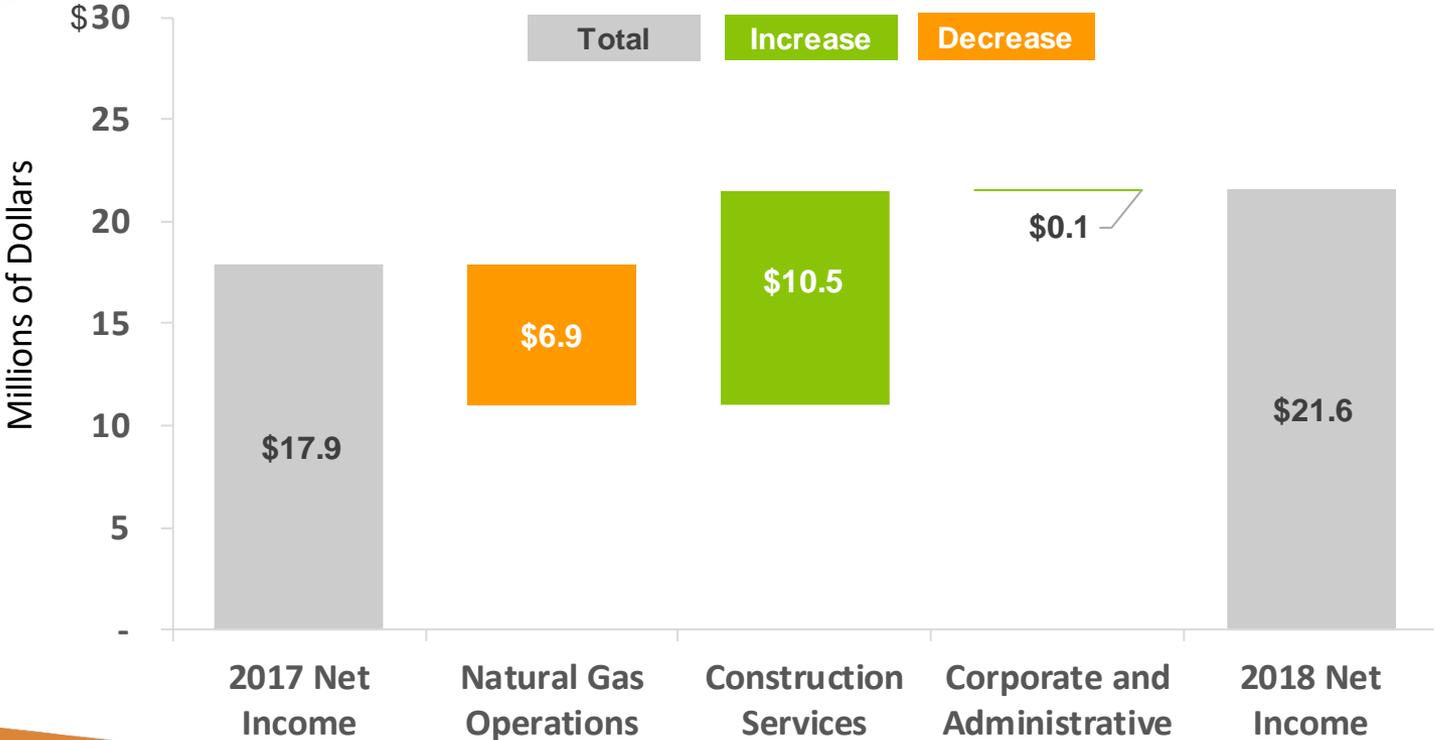
	THREE MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2018	2017	2018	2017
Results of Consolidated Operations				
Gas operations income	\$ 2,622	\$ 9,522	\$ 163,329	\$ 125,942
Construction services income	19,236	8,716	45,213	29,552
Other - corporate and administrative	(307)	(374)	(1,231)	(670)
Net income	<u>\$ 21,551</u>	<u>\$ 17,864</u>	<u>\$ 207,311</u>	<u>\$ 154,824</u>
Basic earnings per share	<u>\$ 0.44</u>	<u>\$ 0.38</u>	<u>\$ 4.29</u>	<u>\$ 3.26</u>
Diluted earnings per share	<u>\$ 0.44</u>	<u>\$ 0.37</u>	<u>\$ 4.28</u>	<u>\$ 3.24</u>
Average number of common shares	48,826	47,571	48,338	47,516
Average shares (assuming dilution)	48,880	47,884	48,387	47,857

Consolidated Net Income

Three Months Ended June 30, 2018



Total Increase - \$3.7 million

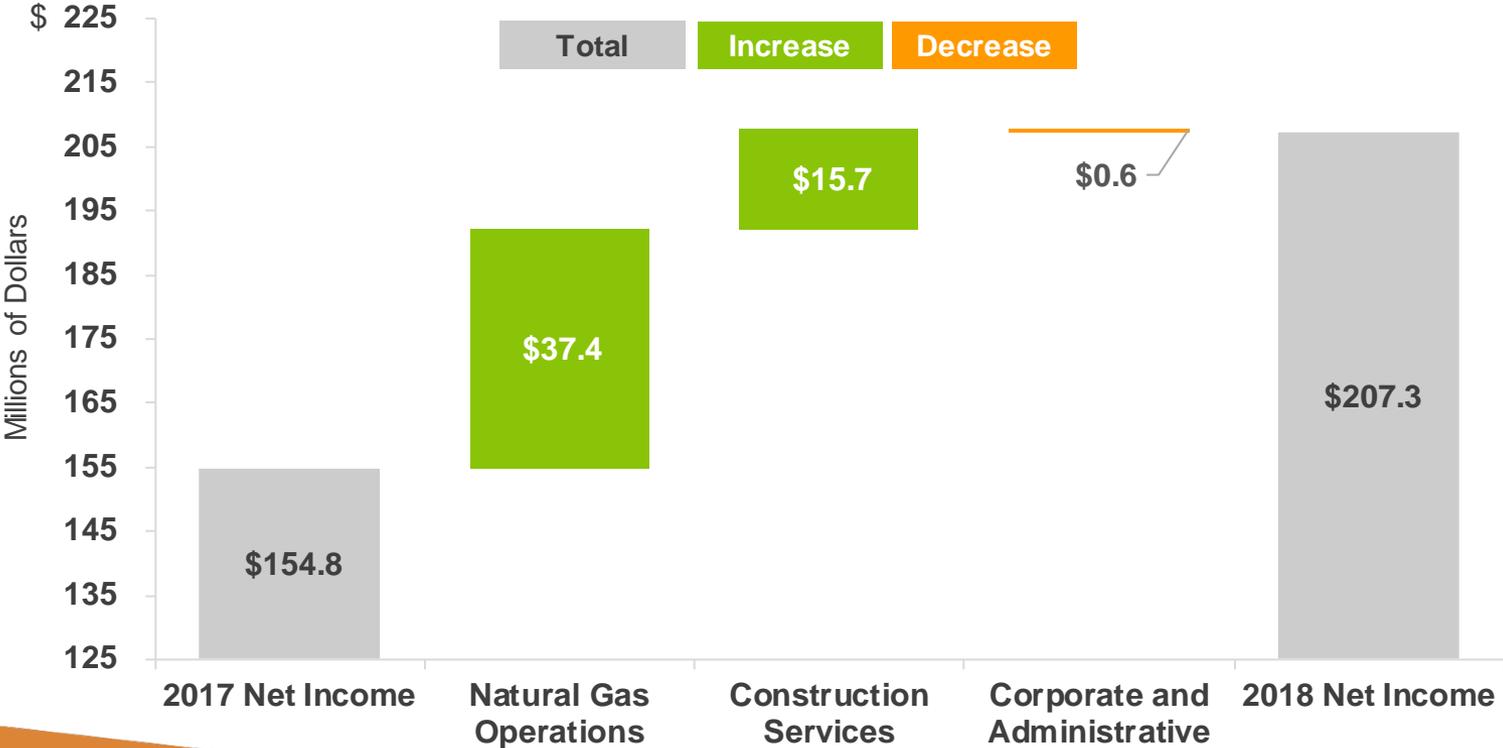


Consolidated Net Income

Twelve Months Ended June 30, 2018



Total Increase - \$52.5 million



Net Income

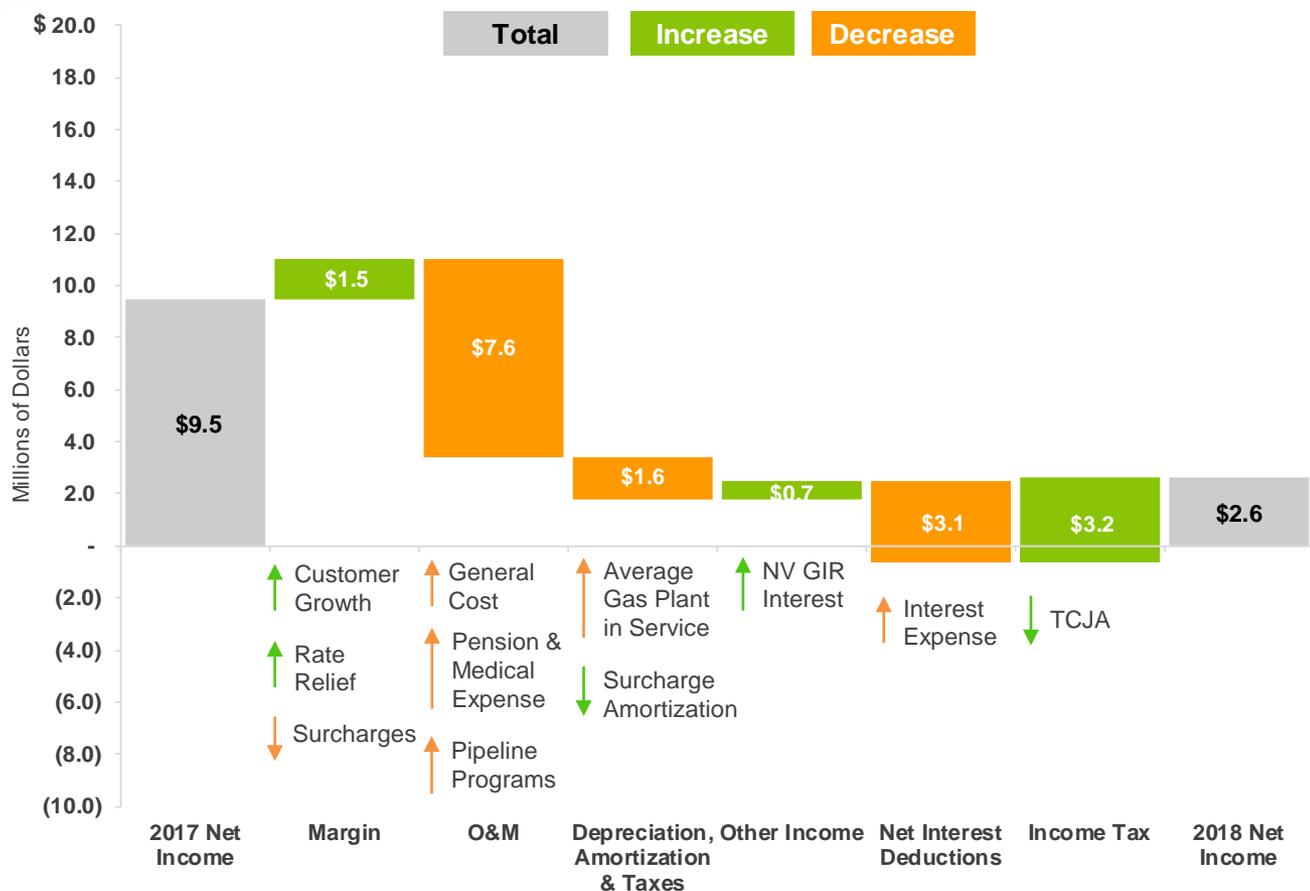
Three Months Ended June 30, 2018

Natural Gas Operations



SOUTHWEST GAS

Total Decrease - \$6.9 million



Net Income

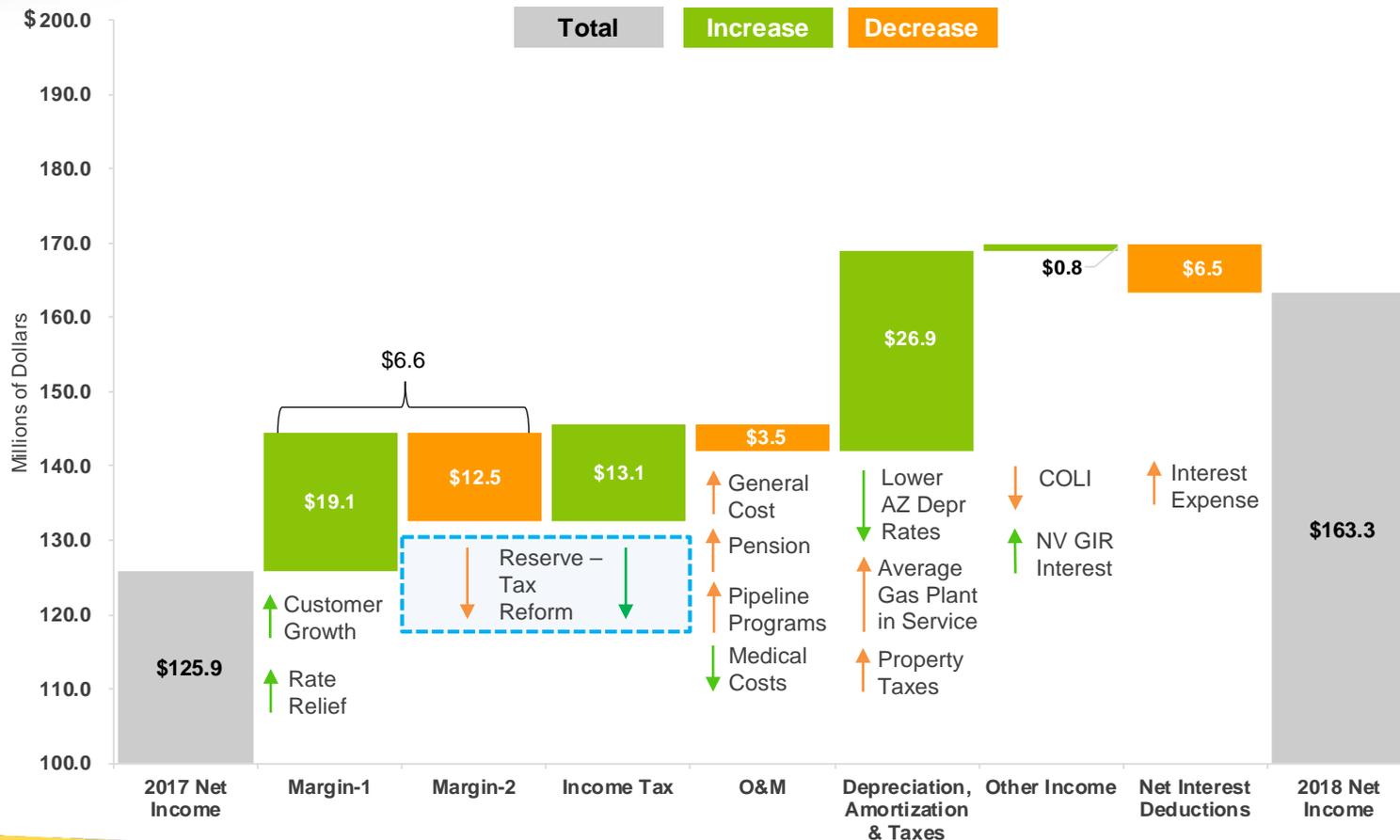
Twelve Months Ended June 30, 2018

Natural Gas Operations



SOUTHWEST GAS

Total Increase - \$37.4 million

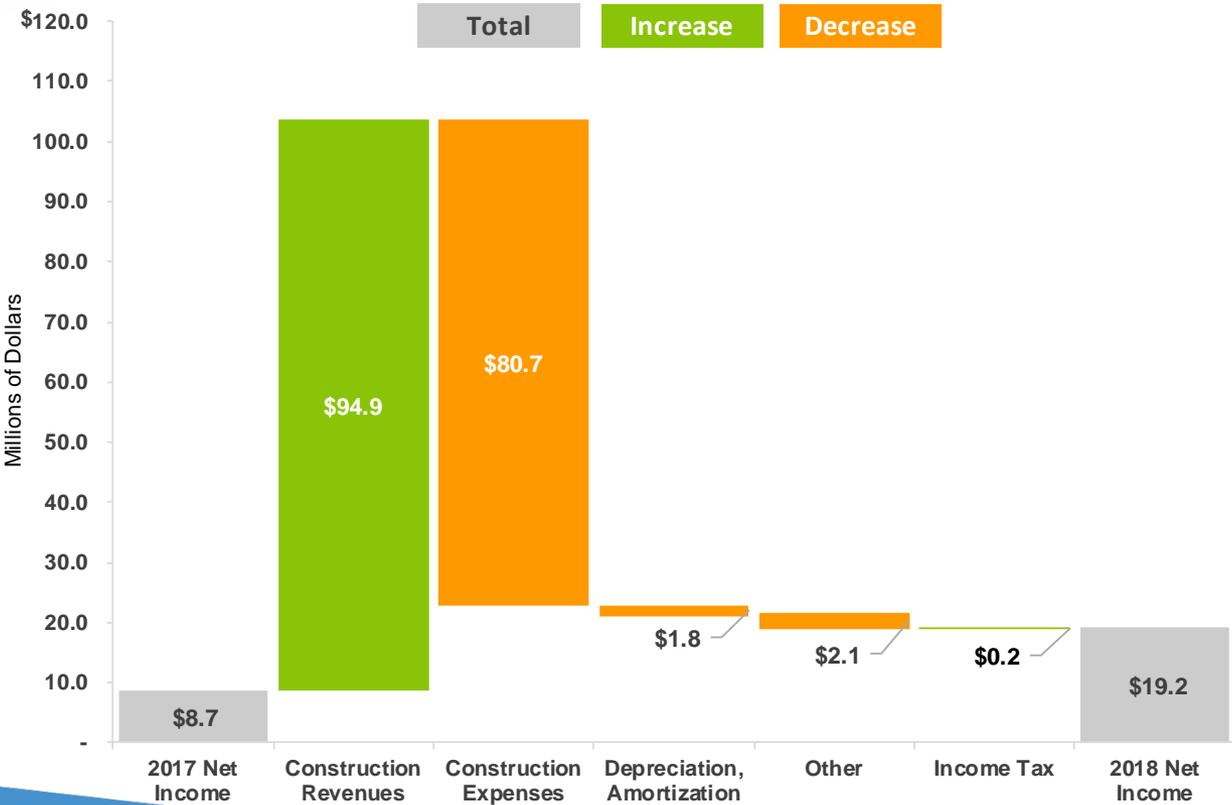


Net Income

Three Months Ended June 30, 2018
Construction Services



Total Increase - \$10.5 million



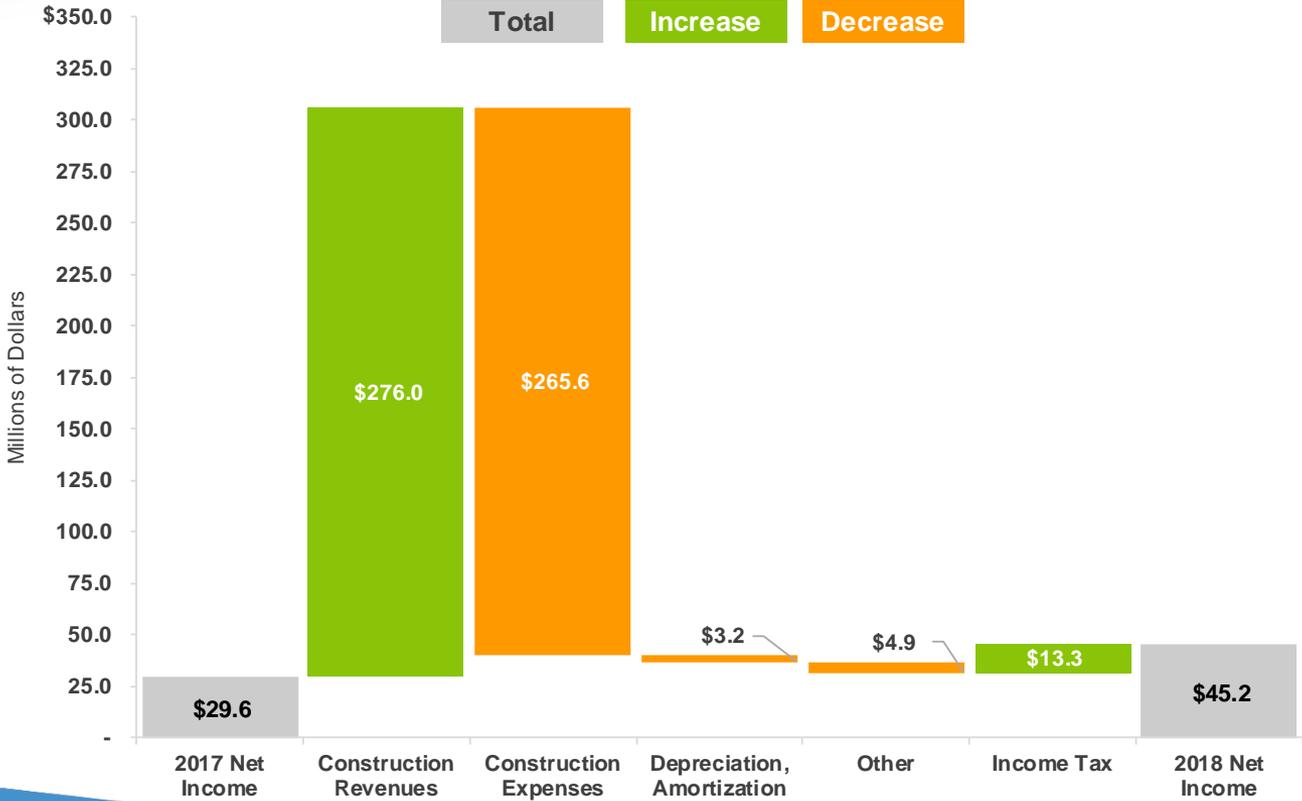
Net Income

Twelve Months Ended June 30, 2018

Construction Services



Total Increase - \$15.6 million



Regulation Key Highlights

Natural Gas Operations



SOUTHWEST GAS

Regulatory Proceedings

- Nevada General Rate Case
- Next California General Rate Case
- Next Arizona General Rate Case
- Tax Reform Proceedings

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

- Mesquite expansion project approved (SB 151 legislation)
- Liquefied Natural Gas (LNG) facility in Arizona – construction proceeding
- 2018 expansion project – Paiute Pipeline Company (FERC regulated)

Regulation – Regulatory Proceedings



SOUTHWEST GAS

Nevada General Rate Case Natural Gas Operations

Base Rates

- Rate Relief – \$32.5 million (reflects new tax rate)
- Rate Base – ↑\$309 million (\$1.25 billion)
- ROE – 10.3%
- Common Equity – 49.3%
- Depreciation Study – ↑\$3.8 million

Regulatory Mechanisms

- Continue decoupled rate design (GRA)
- Reset GIR
 - Prudency reviews
 - GIR Rate – \$6.6 million
- Pension tracker

Key Milestones

- Application filed – May 29, 2018
- Intervenor testimony – September 21, 2018 – October 5, 2018
- Hearings – October 22, 2018
- Effective date for new rates – Expected January 2019

Regulation – Regulatory Proceedings

Natural Gas Operations



SOUTHWEST GAS

Next California General 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
 - Incremental revenue of \$2.7 million effective January 2018

Next Arizona General Rate Case

Last Proceeding:

- New rates effective April 1, 2017
- Impact to operating income:
 - 2017 - \$45 million
 - 2018 - \$16 million
- Rate case moratorium until May 2019
- Currently evaluating option to file rate case sooner than May 2019 in light of tax reform decision

Regulation – Tax Reform Proceedings



SOUTHWEST GAS

Natural Gas Operations

Arizona

- The ACC issued an order directing all utilities to apply regulatory accounting treatment to track all impacts resulting from tax reform and to file plans for how to address ratemaking impacts. Southwest made a filing April 2 proposing two different methodologies to flow benefits from tax reform back to customers, including a refund of approximately \$12M. On July 19, 2018, the ACC approved a Staff recommended Opinion and Order for an annual refund of \$20M.

Nevada

- The PUCN opened a docket and directed utilities to file written comments on how the utility plans to address potential tax reform changes and conducted a workshop April 26. Consistent with its position at the workshop, Southwest included the effects of tax reform as part of its May general rate case filing.

California

- The CPUC has not opened a docket or initiated any formal proceedings to address tax reform. As part of the CPUC approved agreement to extend our rate case cycle, Southwest was directed to establish a memorandum account to track changes resulting from changes in tax law, procedure or policy for attrition years 2019 and 2020.

Paiute Pipeline Company

- The FERC recently approved its proposed rulemaking directing pipelines to make a filing on the rate effect of the new tax law and to explain how the pipeline plans to adjust rates to reflect the change in the tax law or provide an explanation why a change in rates is not necessary. Paiute anticipates making a filing with FERC before year end.

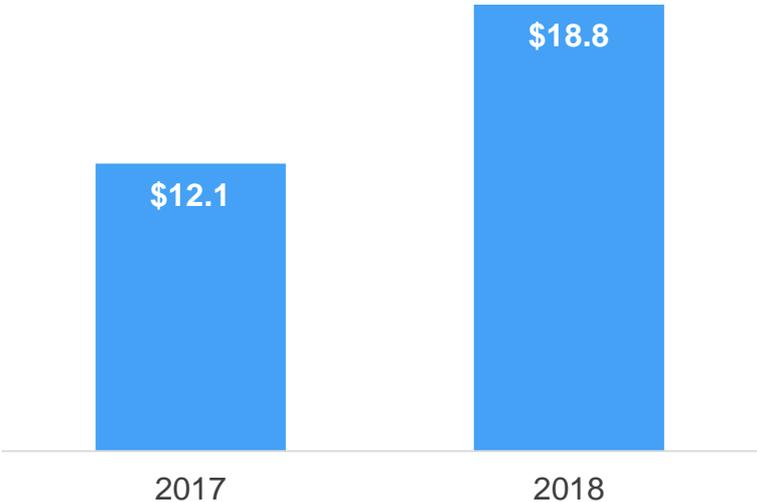
ACC – Arizona Corporation Commission
PUCN - Public Utilities Commission of Nevada
CPUC - California Public Utilities Commission
FERC - Federal Energy Regulatory Commission

Regulation – Infrastructure Replacement Programs



Natural Gas Operations
(In millions)

Arizona COYL
Capital Investment



Arizona COYL
Surcharge Revenue



Since inception of the COYL program in 2012 through December 31, 2017, the Company has replaced 16,362 COYLs at a cost of \$54 million.

Regulation – Infrastructure Replacement Programs



Natural Gas Operations
(In millions)

Arizona VSP
Capital Investment



Arizona VSP
Surcharge Revenue
(Staff Recommended)

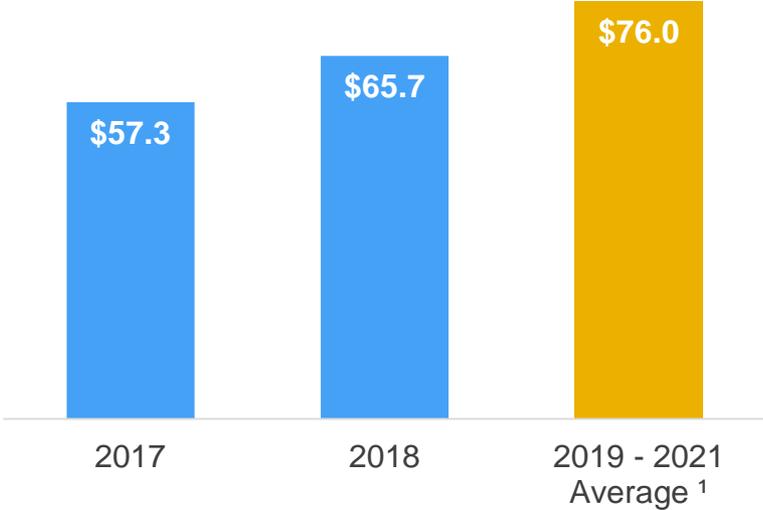


Regulation – Infrastructure Replacement Programs

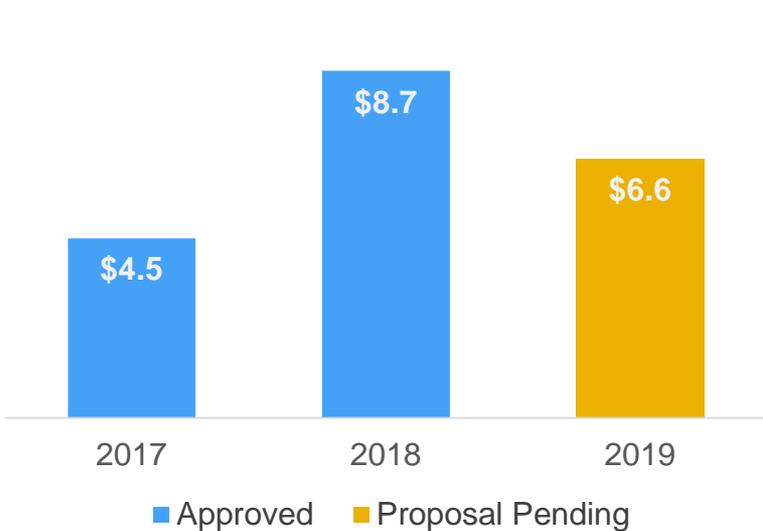


Natural Gas Operations

Nevada GIR Program
Capital Investment



Nevada GIR Program
Surcharge Revenue



¹ Proposal to spend \$228 million over the period 2019–2021.

Since 2012, the PUCN has authorized Southwest Gas to invest over \$227 million in various pipe replacement projects and recover its costs through the GIR mechanism.

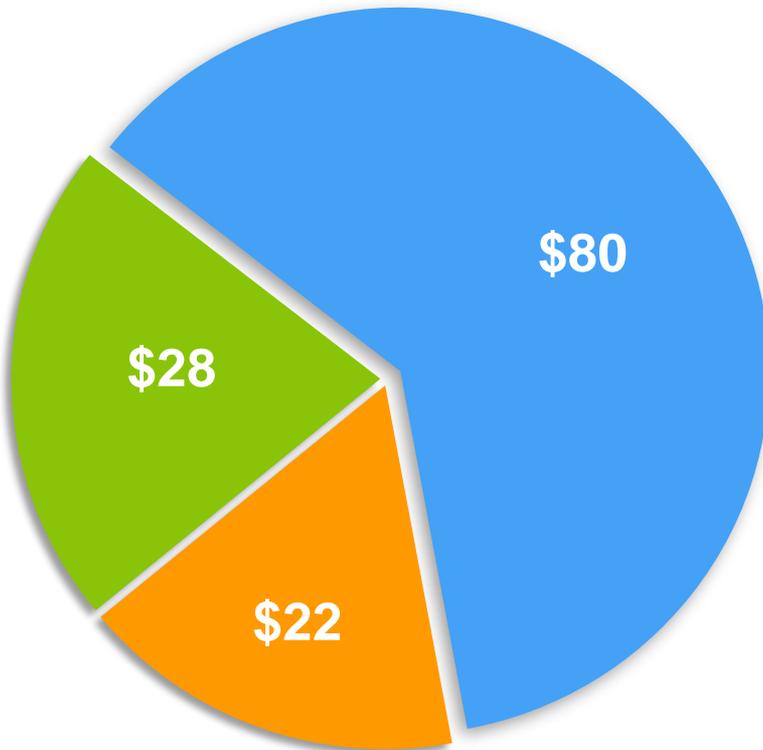
Regulation – Expansion Projects

Natural Gas Operations



SOUTHWEST GAS

\$ in millions



ARIZONA LNG FACILITY

- Approved \$80 million, 233,000 dekatherm LNG facility
- Construction is over 65% complete
- Approximately \$45 million spent through June 2018
- Construction expected to be completed by end of 2019

SOUTHERN NEVADA EXPANSION

- Filed for pre-approval to expand natural gas services to Mesquite, Nevada (SB 151)
- PUCN approved the expansion project in May 2018, with an approved investment of \$28 million
- Anticipate providing service to certain customers as early as the first half of 2019

PAIUTE PIPELINE COMPANY EXPANSION

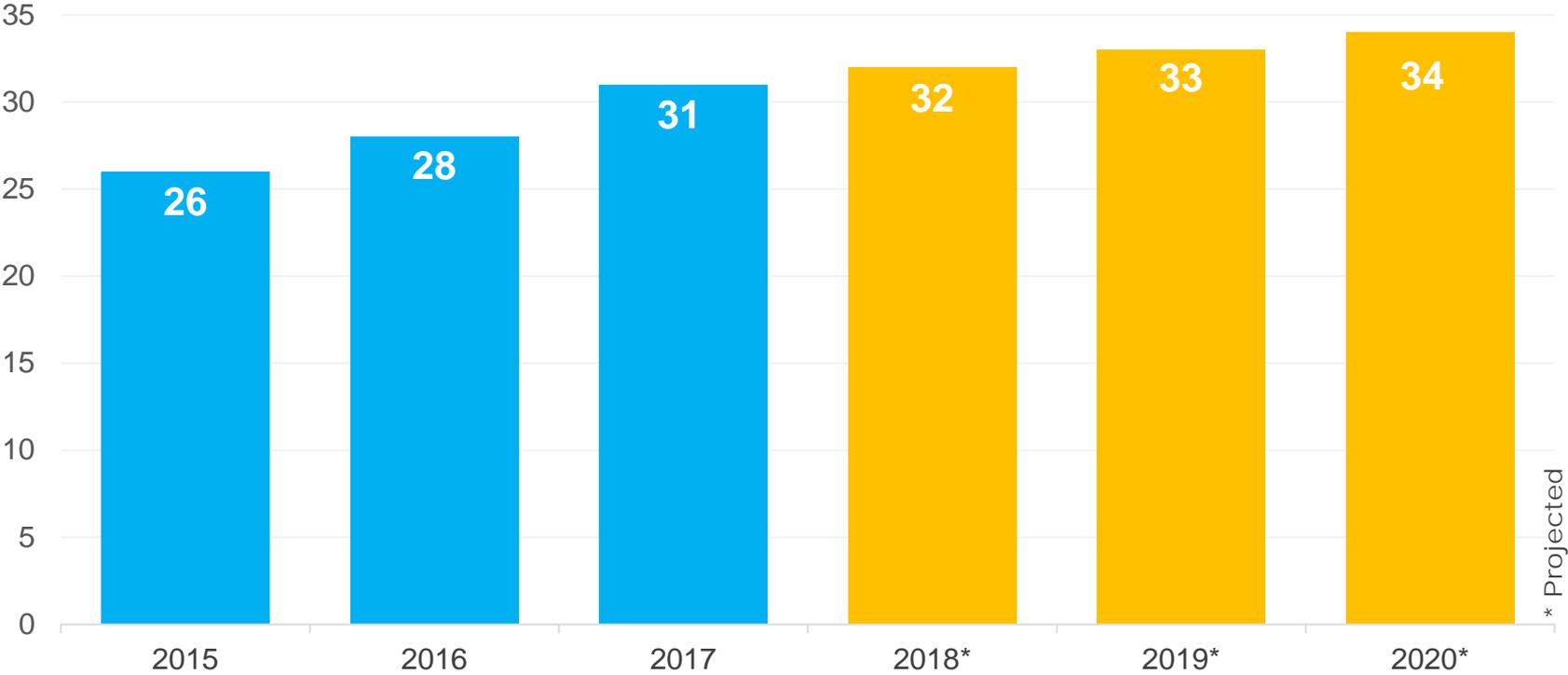
- \$22 million project consists of approximately 8.5 miles of additional pipeline infrastructure
- FERC certificate order authorizing Paiute to construct its 2018 Expansion Project was issued on May 15, 2018
- The new facility is expected to be in place by the end of 2018
- Construction began July 2018

Customer Growth

Natural Gas Operations



CUSTOMER GROWTH
Twelve Months Ended December 31
(In thousands)



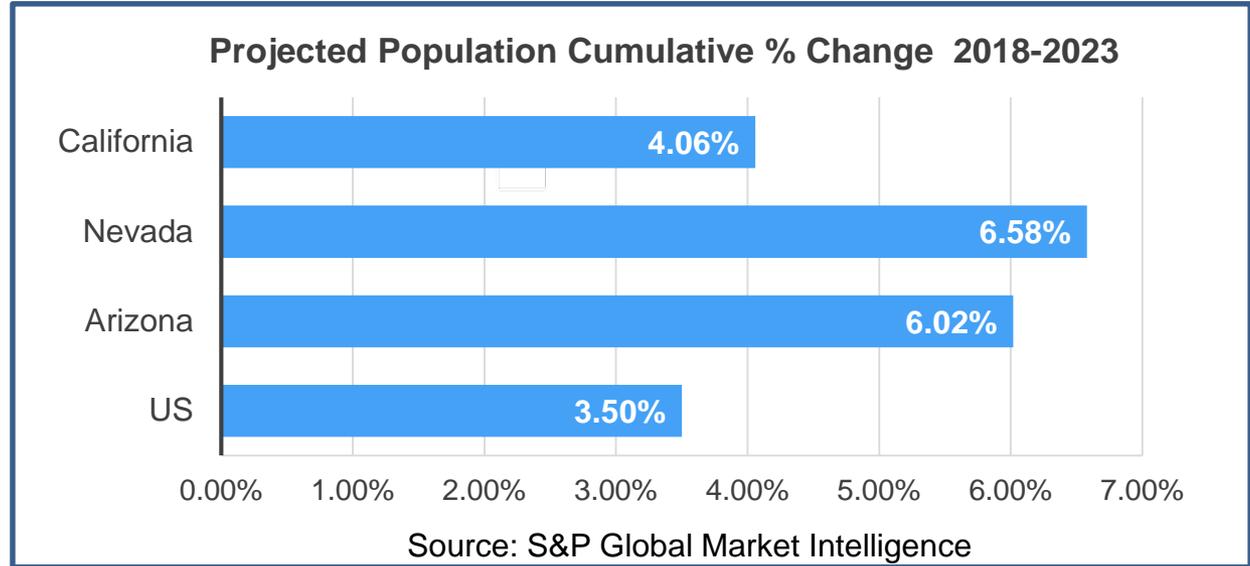
Added 33,000 net new customers as of twelve months ended June 30, 2018.

Growth & Economic Conditions

Natural Gas Operations



SOUTHWEST GAS



	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>June 2017</u>	<u>June 2018</u>	<u>June 2017</u>	<u>June 2018</u>
Southern California	5.5%	4.7%	3.4%	3.2%
Southern Nevada	5.1%	4.7%	2.7%	3.5%
Northern Nevada	4.4%	3.9%	-0.1%	0.2%
Southern Arizona	4.9%	4.5%	0.5%	2.1%
Central Arizona	4.5%	4.2%	3.0%	3.1%

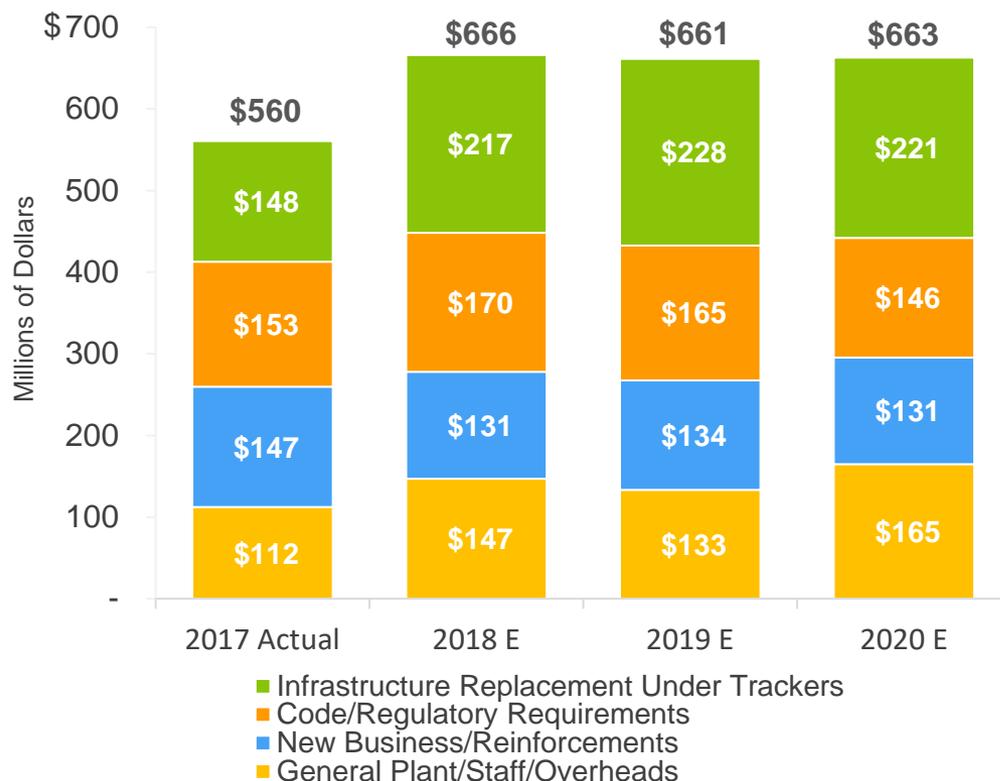
Capital Expenditures

Natural Gas Operations

(In millions)



SOUTHWEST GAS



2018-2020 estimate of \$2 billion

LONG-TERM FINANCING ACTIVITY

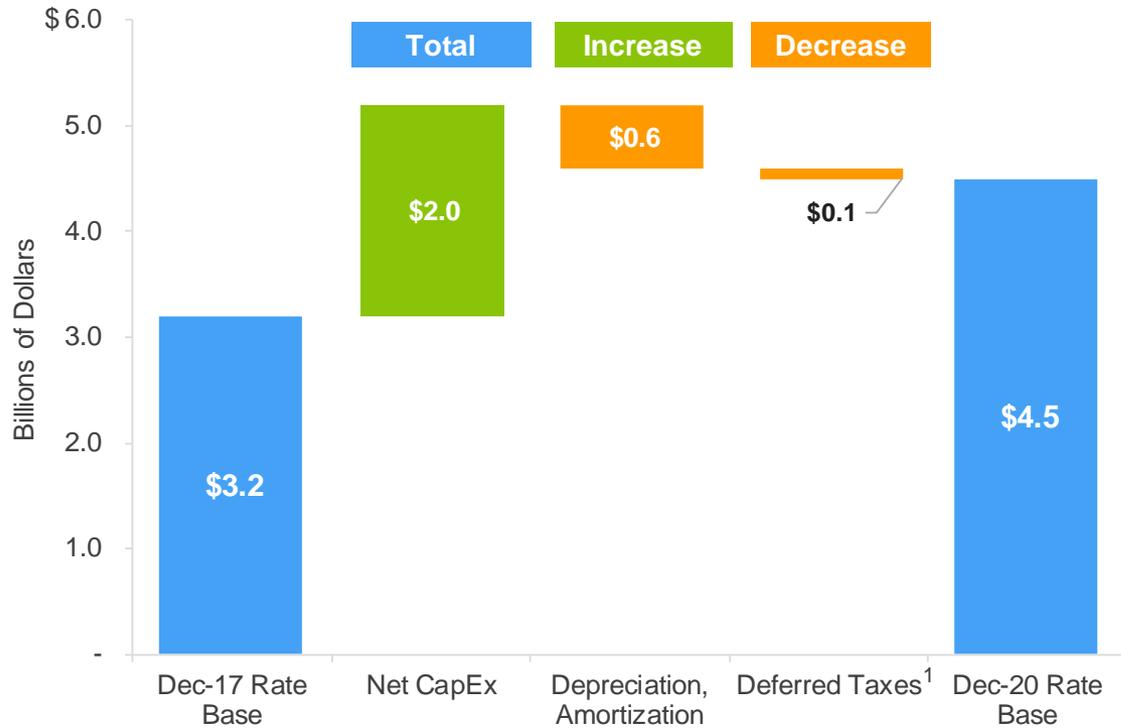
- Expect to fund 50-60% through internal cash flow
- March 2018 issued \$300 million, 3.7% senior unsecured notes due April 2028
- Anticipate funding remaining needs through a balance of debt and equity
- Equity Shelf program initiated at \$150 million, \$42 million utilized in 2017 and \$65 million utilized in 2018 YTD, with \$43 million available

Projected Rate Base Growth

Natural Gas Operations



SOUTHWEST GAS



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.

■ Projecting 12% CAGR in rate base over next 3 years

¹ Includes changes in the regulatory liability created due to tax reform.

2018 Financial Influences



Natural Gas Operations

- Customer growth estimated at 1.6%
- Growing capital expenditure levels will be matched by appropriate financing activity
- Remaining Arizona rate relief recognized in the first quarter of 2018
- Pension expense to increase \$8 million due to low interest rates at December 31, 2017
- Nevada general rate case filed in May 2018 with new rates to become effective January 2019

Construction Services

- Neuco full year results expected to drive revenue growth
- Lower tax rates are beneficial overall, but increased magnitude of seasonal first quarter loss

2018 expectations can be useful in estimating a range for net income. However, income statement line item variances may occur when compared to actual results due to potential regulatory requirements arising from tax reform.

2018 Estimated Line-Items Guidance



SOUTHWEST GAS

Natural Gas Operations

Description	2017 (in millions)	2018E
Operating Margin	\$947	~ 2% increase (less approximately \$20 million impact due to tax reform)
O&M Expense	391 ^[1]	2% - 3% increase and \$8 million in increased pension expense
Depreciation & General Taxes	260	Flat – result of rate reduction from Arizona rate case (April 2017)
Operating Income	296	Flat to modestly up (less approximately \$20 million tax reform impact)
Net Interest Deductions	70	Increase \$9-\$11 million
Other Income (Loss)	(6) ^[1]	COLI – normal returns of \$3-\$5 million
Income Taxes	63	23% - 24% rate
Net Income	\$157	
Capital Expenditures	\$560	\$670 million (\$2 billion for years 2018-2020)

^[1] Reflects reclassification of non-service pension costs

2018 Estimated Line-Items Guidance



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CONSTRUCTION GROUP

Construction Services

Description	2017 (in millions)	2018E
Revenues	\$1,246	~ 8% - 12% greater
Operating Income	48	~ 5% - 5.5% of revenues
Net Interest Deductions	8	Expected between \$12-\$13 million
Foreign Exchange		Changes in foreign exchange rates could influence outcomes
Income Taxes	2	27% - 28% rate
Net Income	<u>\$38</u>	

Expected Long-Term Value Drivers



Natural Gas Operations

- Customer growth exceeding 31,000 a year for 2018-2020
- Approximately \$2 billion in capital investment for three years, 2018-2020
- A 12% CAGR in rate base for next three years
- Constructive rate mechanisms reduce regulatory lag

Construction Services

- One of the largest, and still growing, underground pipeline contractors in North America
- Serving 25 markets across the U.S. and Canada
- Average relationship with top customers is over 20 years
- Increased pipe replacement work due to aging infrastructures and heightened regulation and safety

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APPENDIX

Business Segments & Net Income



Southwest Gas[™]
HOLDINGS

Natural Gas Operations



SOUTHWEST GAS

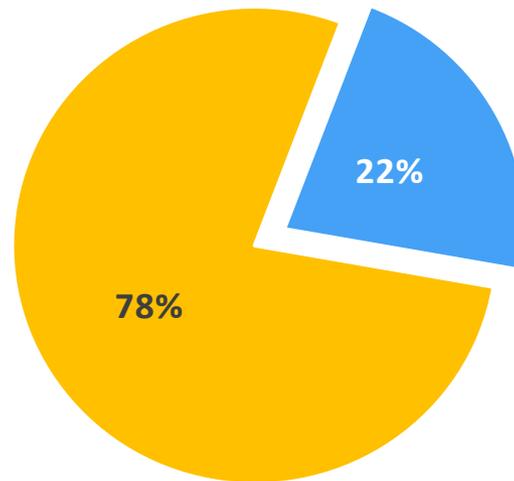
Construction Services



CENTURI
CONSTRUCTION GROUP

\$207MM

TMTD 06/30/18 Net Income



Stable Customer Base

Natural Gas Operations

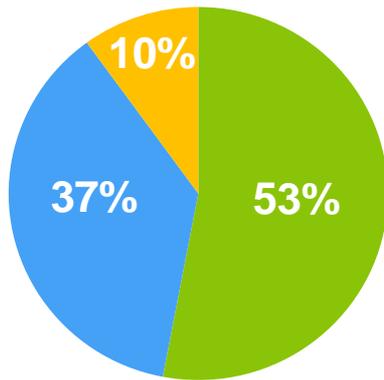


SOUTHWEST GAS

TMTD June 30, 2018 Customer & Operating Margin Distribution

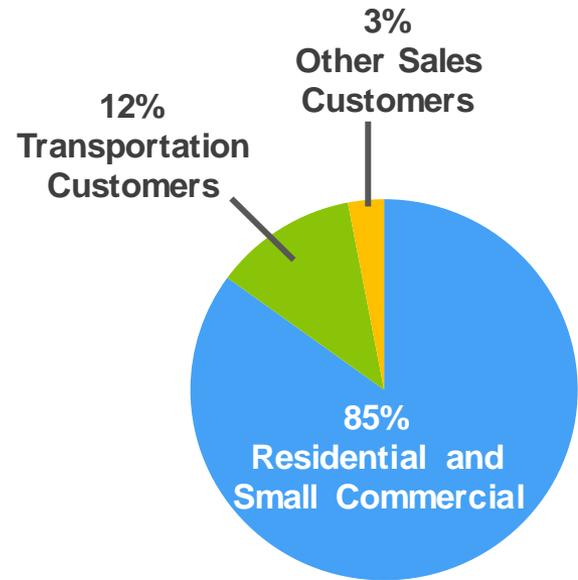
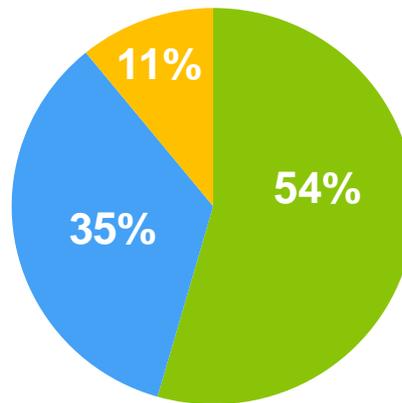
By State

Customers



- Arizona
- Nevada
- California

Margin



Consistent trends year over year

Customers by State

Natural Gas Operations

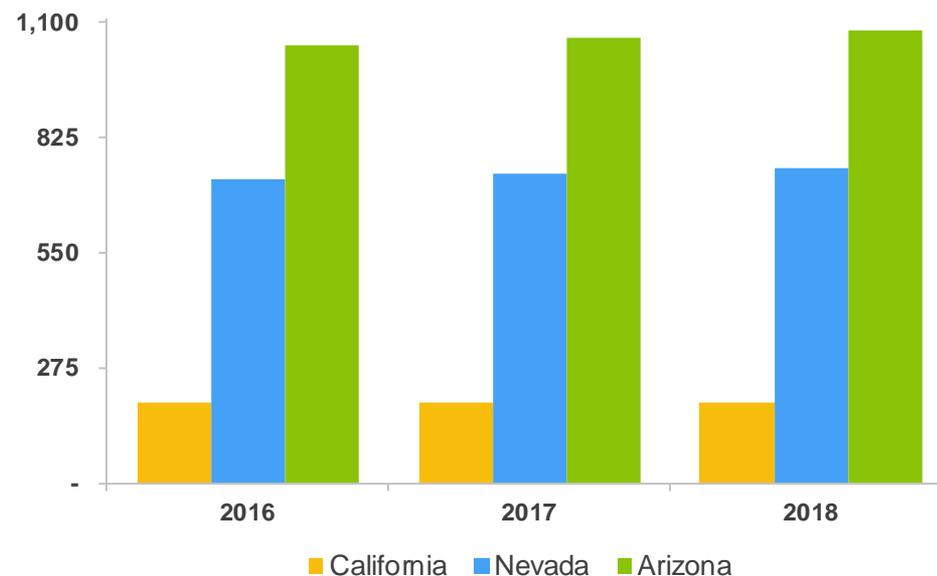
(In thousands)



SOUTHWEST GAS

As of June 30,

	2016	2017	2018
Arizona	1,047	1,063	1,080
Nevada	724	738	752
California	191	193	195
Total	1,962	1,994	2,027



Summary Operating Results

Natural Gas Operations

(In thousands)



SOUTHWEST GAS

THREE MONTHS ENDED JUNE 30,

Results of Natural Gas Operations

	2018	2017
Gas operating revenues	\$ 275,679	\$ 260,162
Net cost of gas sold	83,466	69,421
Operating margin	192,213	190,741
Operations and maintenance expense	105,208	97,644
Depreciation and amortization	47,664	46,254
Taxes other than income taxes	14,666	14,497
Operating income	24,675	32,346
Other income (deductions)	(2,094)	(2,805)
Net interest deductions	20,149	16,991
Income before income taxes	2,432	12,550
Income tax expense (benefit)	(190)	3,028
Segment net income	\$ 2,622	\$ 9,522

Summary Operating Results

Natural Gas Operations

(In thousands)



SOUTHWEST GAS

TWELVE MONTHS ENDED JUNE 30,

Results of Natural Gas Operations

	2018	2017
Gas operating revenues	\$ 1,349,536	\$ 1,263,428
Net cost of gas sold	407,943	328,405
Operating margin	941,593	935,023
Operations and maintenance expense	397,251	393,772
Depreciation and amortization	192,098	222,935
Taxes other than income taxes	58,590	54,655
Operating income	293,654	263,661
Other income (deductions)	(9,036)	(9,843)
Net interest deductions	74,936	68,407
Income before income taxes	209,682	185,411
Income tax expense	46,353	59,469
Segment net income	\$ 163,329	\$ 125,942

Purchased Gas Adjustment (PGA)

Balances



Natural Gas Operations
(In thousands)

	June 30, 2018	December 31, 2017	June 30, 2017
Arizona	\$ (9,167)	\$ 5,069	\$ 4,822
Northern Nevada	(4,555)	8,189	1,134
Southern Nevada	(7,364)	(6,841)	(17,741)
California	(5,279)	1,323	(2,887)
Total Receivable/(Payable)	<u>\$ (26,365)</u>	<u>\$ 7,740</u>	<u>\$ (14,672)</u>

Regulation

Nevada General Rate Case Natural Gas Operations



Date	Procedural Schedule - Docket No. 18-05031
May 29, 2018	Application Filed
Certification Filing (Certification Period Ended July 31, 2018)	
August 24, 2018	Cost of Capital
August 31, 2018	Revenue Requirement and Rate Design
September 14, 2018	Gas Infrastructure Rate Reset
Cost of Capital	
September 21, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 5, 2018	Rebuttal Testimony (Southwest Gas)
Revenue Requirement & Depreciation	
October 3, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 12, 2018	Rebuttal Testimony (Southwest Gas)
Rate Design	
October 5, 2018	Direct Testimony (PUCN Staff & Intervenors)
October 16, 2018	Direct Testimony (Negotiated Rate Intervenors)
October 18, 2018	Rebuttal Testimony (Southwest Gas)
October 22, 2018	Hearings
January 1, 2019	New Rates (Expected Date)

Authorized Rate Base and Rates of Return

Natural Gas Operations



<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>% of Total Rate Base</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity (ROE)</u>	<u>Decoupled</u>	<u>Authorized Common Equity Ratio</u>
Arizona	\$ 1,324,902	51 %	7.42 %	9.50 %	✓	52.30 %
Southern Nevada	825,190	32	6.55	10.00	✓	42.74
Northern Nevada	115,933	4	7.88	9.30	✓	59.06
Southern California	159,277	6	6.83	10.10	✓	55.00
Northern California	67,620	3	8.18	10.10	✓	55.00
South Lake Tahoe	25,389	1	8.18	10.10	✓	55.00
Paiute Pipeline Company ¹	87,158	3	8.46	11.00	✓	51.75
Total	<u>\$ 2,605,469</u>	<u>100 %</u>				
Weighted average authorized ROE				<u>9.76 %</u>		

¹Estimated amounts based on rate case settlement.

Centuri Construction Group

Construction Services



- Headquartered in Phoenix, Arizona
- Operates in 25 markets across U.S. and Canada
- One of North America's largest full-service underground pipeline contractors



A CENTURI COMPANY



A CENTURI COMPANY



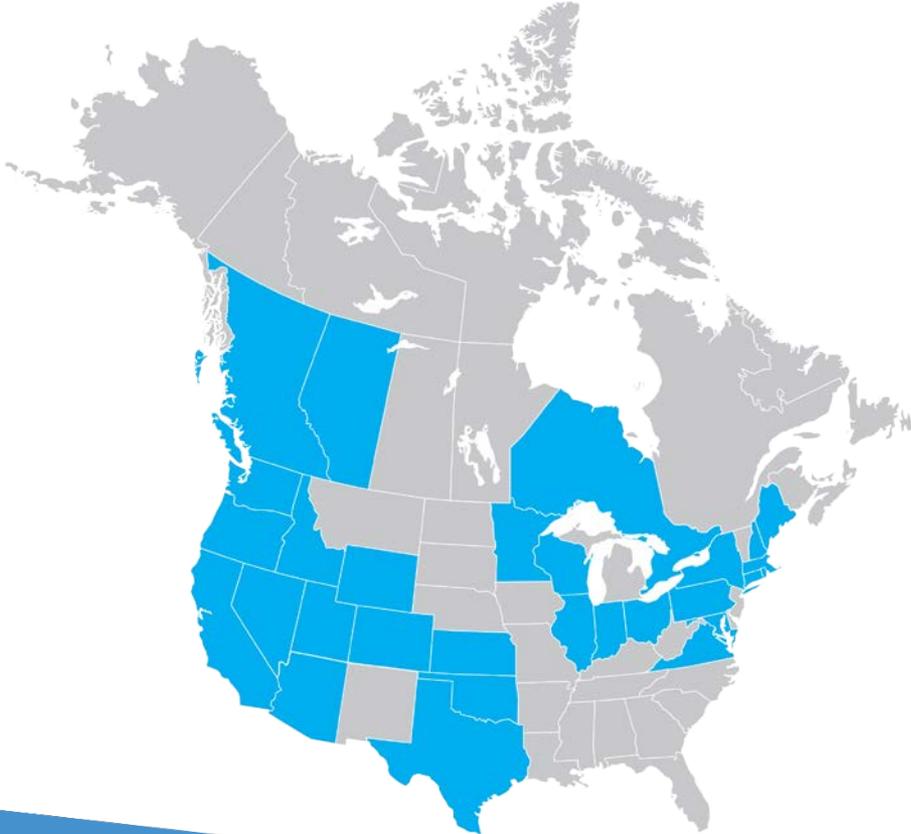
A CENTURI COMPANY



A CENTURI COMPANY



A CENTURI COMPANY



Centuri Construction Group

Construction Services



Summary Operating Results

Construction Services
(In thousands)



	THREE MONTHS ENDED JUNE 30,	
	2018	2017
Construction revenues	\$ 395,204	\$ 300,307
Construction expenses	352,671	272,001
Depreciation and amortization	13,643	11,828
Operating income	28,890	16,478
Other income (deductions)	(632)	(6)
Net interest deductions	3,308	1,629
Income taxes	5,714	5,870
Noncontrolling interests	-	257
Segment net income	<u>\$ 19,236</u>	<u>\$ 8,716</u>

Summary Operating Results

Construction Services

(In thousands)



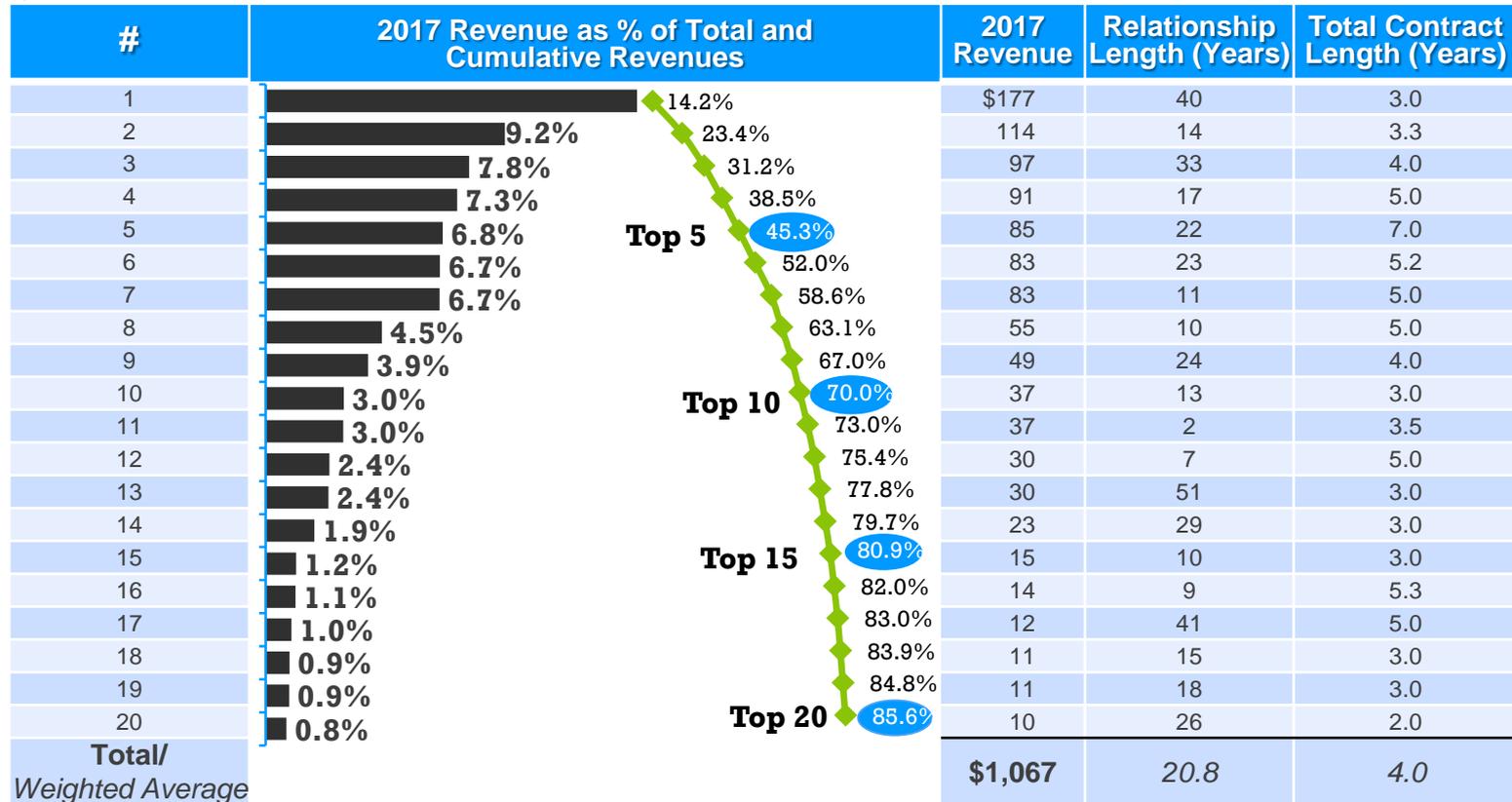
	TWELVE MONTHS ENDED JUNE 30,	
	2018	2017
Construction revenues	\$ 1,409,263	\$ 1,133,272
Construction expenses	1,296,629	1,031,072
Depreciation and amortization	52,078	48,838
Operating income	60,556	53,362
Other income (deductions)	(272)	1,441
Net interest deductions	11,357	6,645
Income taxes	4,364	17,703
Noncontrolling interests	(650)	903
Segment net income	<u>\$ 45,213</u>	<u>\$ 29,552</u>

Top 20 Customers

Construction Services



\$ in Millions



Economic Overview – Service Area

Natural Gas Operations



SOUTHWEST GAS

	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>June 2017</u>	<u>June 2018</u>	<u>June 2017</u>	<u>June 2018</u>
Southern California ¹	5.5%	4.7%	3.4%	3.2%
Southern Nevada ²	5.1%	4.7%	2.7%	3.5%
Northern Nevada ³	4.4%	3.9%	-0.1%	0.2%
Southern Arizona ⁴	4.9%	4.5%	0.5%	2.1%
Central Arizona ⁴	4.5%	4.2%	3.0%	3.1%

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

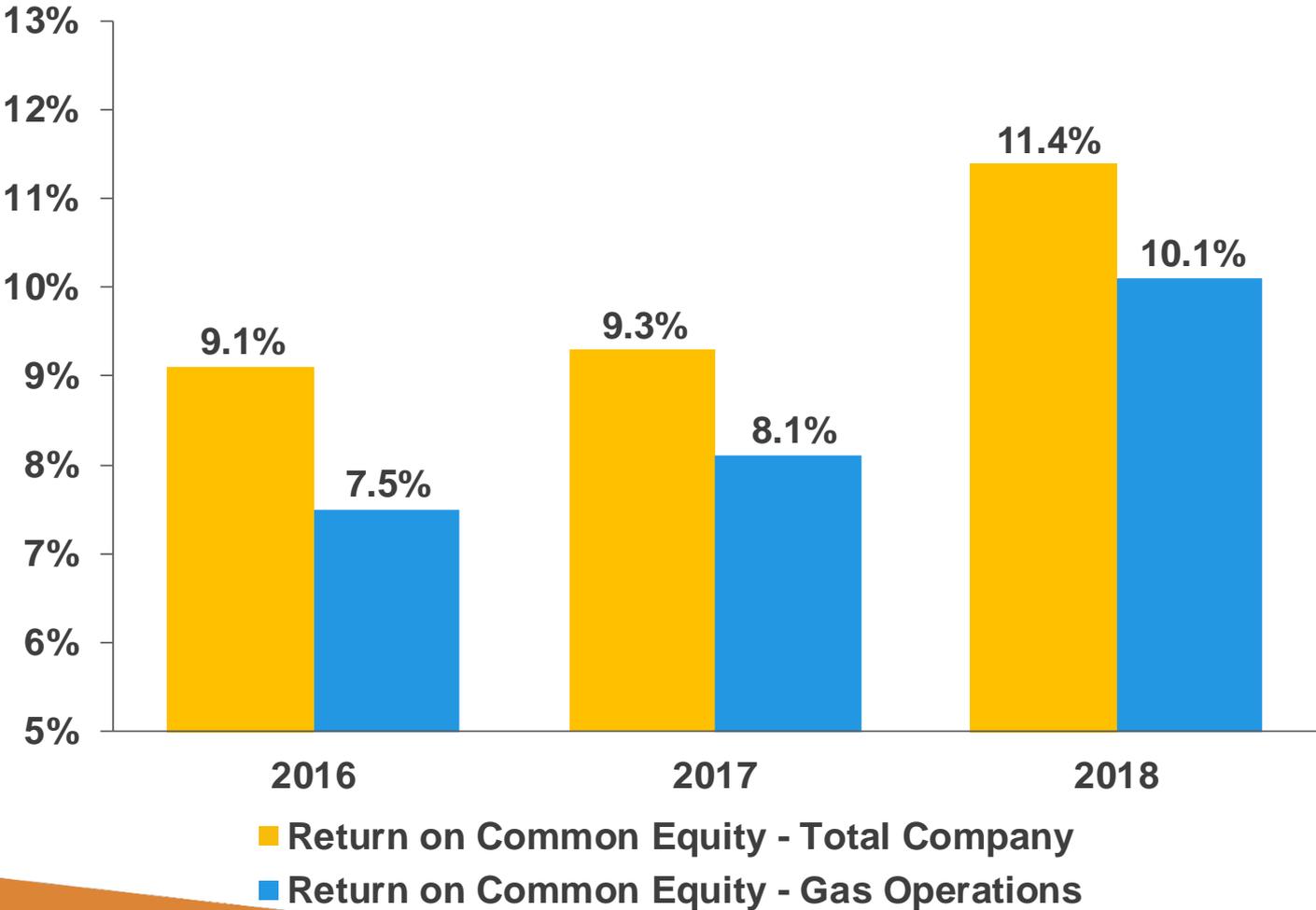
² Source: Nevada Department of Employment, Training and Rehabilitation (DETR), Economy In Brief, <http://nevadaworkforce.com>

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

⁴ Source: Arizona Office of Employment & Population Statistics, Employment Report, <http://laborstats.az.gov>

Return on Common Equity

Twelve months ended June 30, 2018

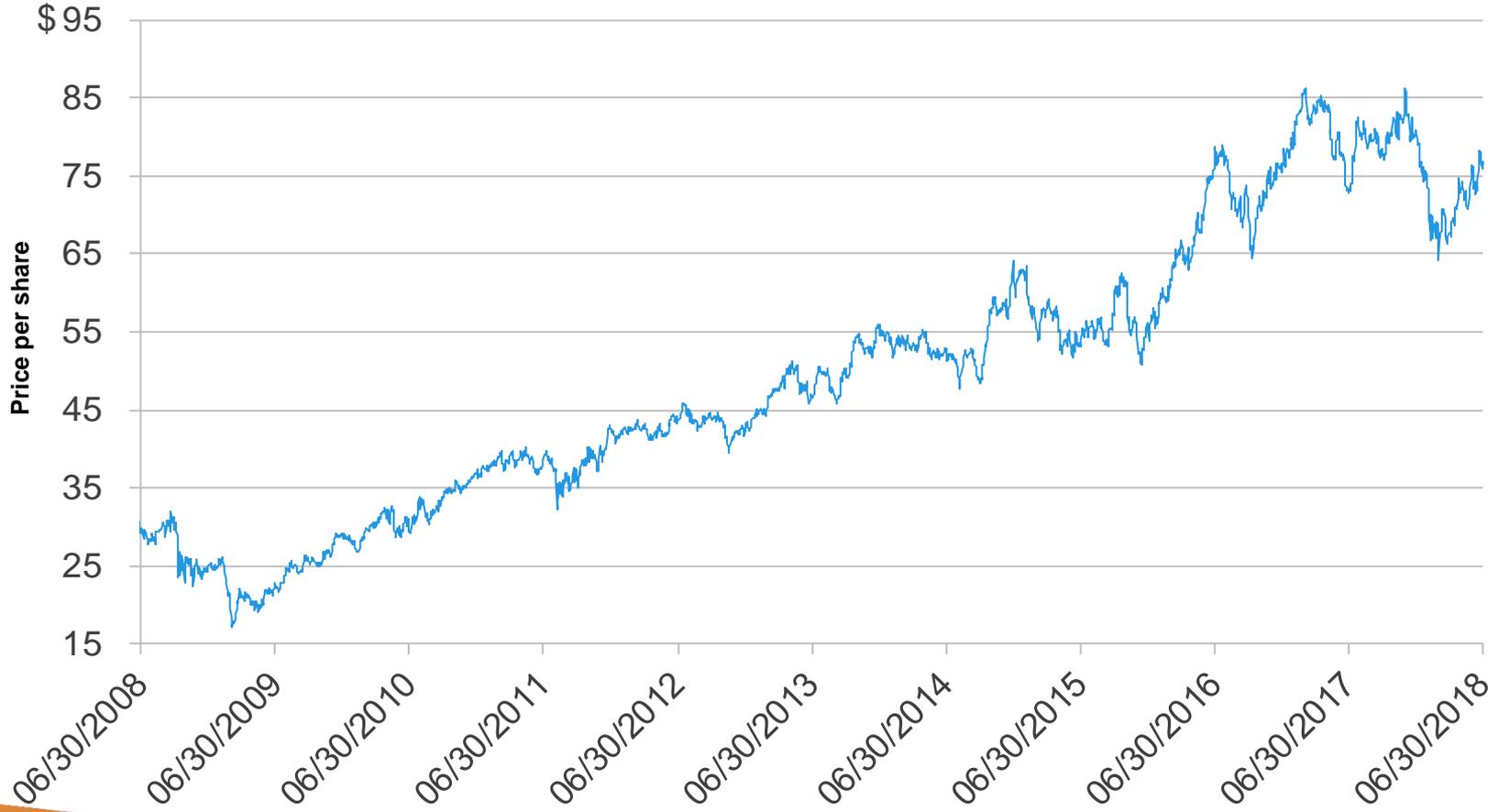


Stock Performance



Southwest Gas
HOLDINGS

Southwest Gas Holdings, Inc.
Common Stock Closing Price
June 30, 2008 – June 30, 2018



Comparative Total Returns



Total Returns for Periods Ended June 30, 2018

	1-Year	3-Year	5-Year	10-Year
Southwest Gas Holdings	7.22%	15.74%	13.20%	13.08%
S&P 400 MidCap Gas Index	8.79%	16.17%	13.76%	8.74%
S&P Composite Utilities Index	4.37%	12.51%	10.92%	7.50%
S&P 500 Index	14.41%	11.92%	13.40%	10.16%

Total Return = Price appreciation plus gross dividends reinvested

Consolidated Capital Structure

(In millions)



Southwest Gas
HOLDINGS

<u>Capitalization at June 30,</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Equity ¹	\$ 1,465	\$ 1,569	\$ 1,657	\$ 1,734	\$ 1,932
Long-Term Debt ²	1,390	1,542	1,478	1,713	2,070
Total Permanent Capital	\$ 2,855	\$ 3,111	\$ 3,135	\$ 3,447	\$ 4,002
<u>Capitalization ratios</u>					
Equity ¹	51.3%	50.4%	52.9%	50.3%	48.3%
Long-Term Debt ²	48.7%	49.6%	47.1%	49.7%	51.7%
Total Permanent Capital	100.0%	100.0%	100.0%	100.0%	100.0%

¹Includes redeemable noncontrolling interest for periods prior to September 30, 2017

²Includes current maturities of long-term debt

Investment Grade Credit Ratings



Southwest Gas[™]
HOLDINGS

Southwest Gas Holdings, Inc.

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

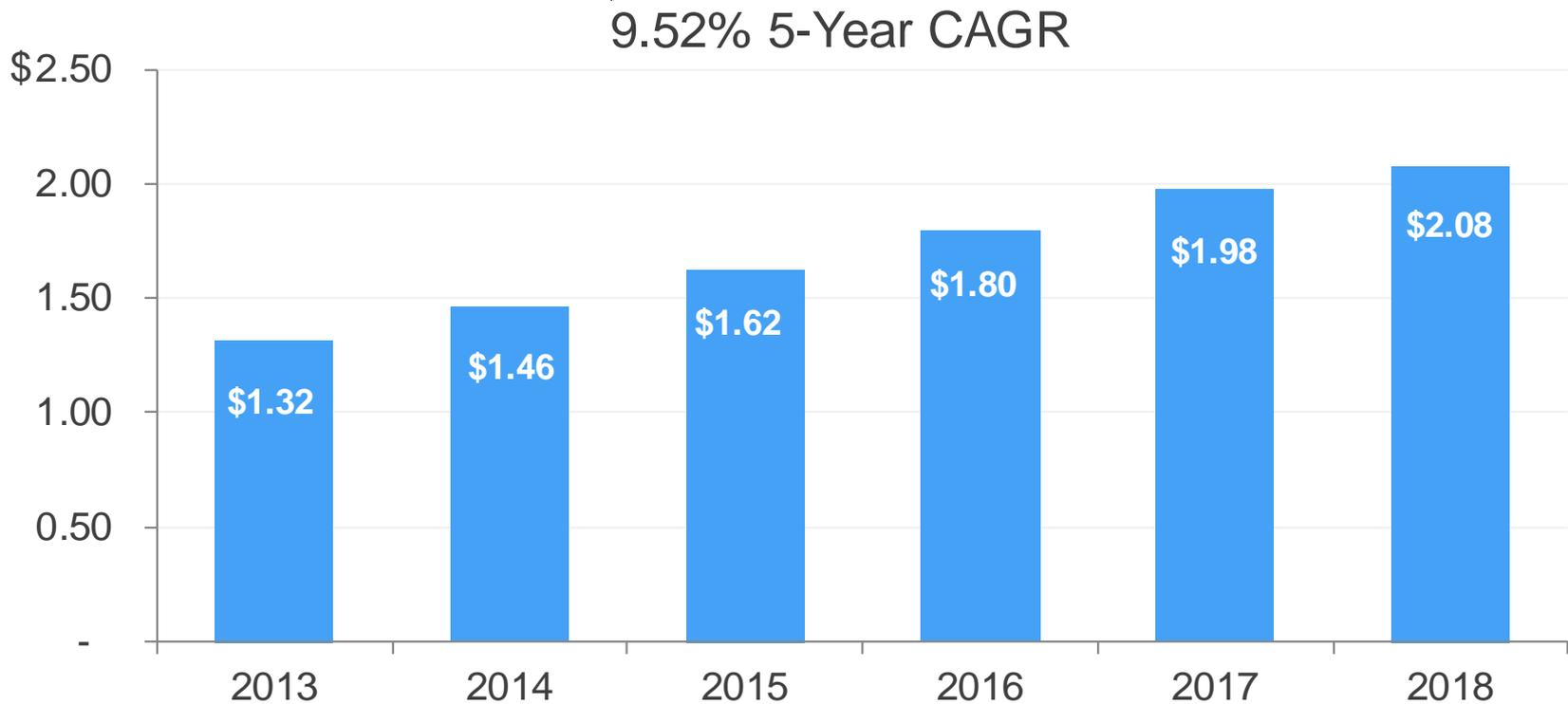
Southwest Gas Corporation

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

Dividend Growth



Southwest Gas[™]
HOLDINGS



CAGR = compound annual growth rate

Non-GAAP Measures



SOUTHWEST GAS

Non-GAAP Measures – Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Gas cost is a tracked cost, which is passed through to customers without markup under purchased gas adjustment (“PGA”) mechanisms, impacting revenues and net cost of gas sold on a dollar-for-dollar basis, thereby having no impact on Southwest’s profitability. Therefore, management routinely uses operating margin, defined as operating revenues less the net cost of gas sold, in its analysis of Southwest’s financial performance. Operating margin also forms a basis for Southwest’s various regulatory decoupling mechanisms. Operating margin is not, however, specifically defined in accounting principles generally accepted in the United States (“U.S. GAAP”) and is considered a non-GAAP measure.

Reconciliation of Revenue to Operating Margin (Non-GAAP measure)

	<u>THREE MONTHS ENDED JUNE 30,</u>		<u>TWELVE MONTHS ENDED JUNE 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	(In thousands)			
<u>Natural Gas Operations</u>				
Gas Operating Revenue	\$ 275,679	\$ 260,162	\$ 1,349,536	\$ 1,263,428
Less: Net cost of gas sold	<u>83,466</u>	<u>69,421</u>	<u>407,943</u>	<u>328,405</u>
Operating Margin	<u>\$ 192,213</u>	<u>\$ 190,741</u>	<u>\$ 941,593</u>	<u>\$ 935,023</u>