Southwest Gas Corporation Announces 2005 Earnings

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LAS VEGAS, March 8 /PRNewswire-FirstCall/ -- Southwest Gas Corporation (NYSE: SWX) announced consolidated earnings of $1.15 per basic share for 2005, a $0.46 per share decrease from the $1.61 per basic share earned in 2004. Consolidated net income for 2005 was $43.8 million, compared to $56.8 million during 2004. Two principal factors adversely affected earnings: lost operating margin, resulting from warmer-than-normal weather, and a non-recurring charge related to an injuries and damages incident. Also influencing current-year results was the length of time taken to reach a final decision in the Arizona general rate case.

According to Jeffrey W. Shaw, Chief Executive Officer, "Weather continues to be a significant factor in the variability of earnings. In the desert southwest, 2005 was one of the 10 warmest years on record. Consequently, we did not realize approximately $17 million in operating margin ($0.28 per share), primarily in Arizona, due to lower usage. Fortunately, the negative effects of weather were mitigated by rate design changes in the most recent California and Nevada general rate cases." Shaw also commented on the increase in operating costs, "After a thorough review of outstanding litigation, and based upon changed circumstances regarding a pending injuries and damages case, we recorded a $10 million non-recurring charge ($0.16 per share) at year-end 2005. Excluding that charge, gas segment operations and maintenance expenses would have increased five percent compared to the prior year, which is relatively consistent with the customer growth we have experienced."

In February 2006, the Arizona Corporation Commission ("ACC") issued a final decision on the Company's December 2004 general rate increase application. Commenting on the decision, Shaw said, "The $49 million operating margin increase approved by the ACC was a big step forward toward our goal of achieving a fair return for investors. However, the ACC did not adopt our proposed rate design changes at this time, leaving customers, investors, and the Company exposed to the risks associated with weather volatility. Instead, the Company was encouraged to work with the ACC Staff and other interested parties prospectively to seek rate design alternatives that will provide benefits to all affected stakeholders."

During the fourth quarter of 2005, consolidated net income was $30.3 million, or $0.77 per basic share, versus $40.4 million, or $1.12 per basic share, for the fourth quarter of 2004.

Natural Gas Operations Segment Results

Full Year 2005

Operating margin, defined as operating revenues less the cost of gas sold, increased $11 million in 2005 as compared to 2004. During 2005, the Company added 81,000 customers (excluding 19,000 customers acquired in South Lake Tahoe), an increase of five percent. New customers contributed $20 million in incremental operating margin. Warmer-than-normal weather, especially during the first and fourth quarters of 2005, resulted in a $17 million decrease in margin. Rate relief in California and Nevada provided $8 million in incremental operating margin.

Operating expenses increased $32 million, or seven percent, in 2005 reflecting general increases in operations and maintenance costs as well as incremental costs (including depreciation and general taxes) associated with serving additional customers. The increase also includes a $10 million charge for a pending injuries and damages case. Other drivers include higher insurance premiums, uncollectible expenses, employee-related expenses, and compliance costs.

Net financing costs rose $3.5 million, or four percent, between periods primarily due to an increase in average debt outstanding to help finance growth and higher variable-rate interest costs.

Fourth Quarter

Operating margin decreased approximately $5.5 million when compared to the fourth quarter of 2004. Warmer-than-normal weather conditions in the Company's service territories reduced operating margin by $11 million, partially offset by the impact of customer growth. Operating expenses, excluding the injuries and damages charge, increased $3.8 million, or three percent, primarily due to higher general costs and incremental operating costs associated with serving additional customers. Net financing costs between the periods were relatively flat.

Southwest Gas Corporation provides natural gas service to 1,713,000 customers in Arizona, Nevada, and California. Its service territory is centered in the fastest-growing region of the country.

This press release may contain statements which constitute "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995 (Reform Act). All such forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act. A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, changes in natural gas prices, the ability to recover costs through the PGA mechanism, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, changes in construction expenditures and financing, changes in operations and maintenance expenses, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, acquisitions and management's plans related thereto, competition, and the ability to raise capital in external financings. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing, operations, and maintenance expenses will continue in future periods.

SOUTHWEST GAS CONSOLIDATED EARNINGS DIGEST
(In thousands, except per share amounts)

YEAR ENDED DECEMBER 31,	2005	2004
Consolidated Operating Revenues	$1,714,283	$1,477,060
Net Income	$43,823	$56,775
Average Number of Common Shares Outstanding	38,132	35,204
Basic Earnings Per Share	$1.15	$1.61
Diluted Earnings Per Share	$1.14	$1.60
QUARTER ENDED DECEMBER 31,		
Consolidated Operating Revenues	$496,995	$460,496
Net Income	$30,255	$40,446
Average Number of Common Shares Outstanding	39,174	36,239
Basic Earnings Per Share	$0.77	$1.12
Diluted Earnings Per Share	$0.76	$1.11

SOURCE Southwest Gas Corporation
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