



SOUTHWEST GAS CORPORATION

**Williams Capital Group
West Coast Utilities Seminar**

March 21, 2013

Presented By

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Safe Harbor Statement

Statements contained in this presentation that may include Company expectations or predictions of the future constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All such statements are intended to be subject to the safe harbor protection provided by the Reform Act. In this respect, the words “may,” “will,” “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe” and similar expressions are intended to identify forward-looking statements. All forward-looking statements included herein are made as of the date hereof. A number of important factors affecting our business and financial results could cause actual results to differ materially from those stated in the forward-looking statements. For additional factors that could affect the validity of our forward-looking statements, you should read the section of our periodic reports filed from time to time with the Securities and Exchange Commission, entitled “Risk Factors” therein.

Presentation Outline

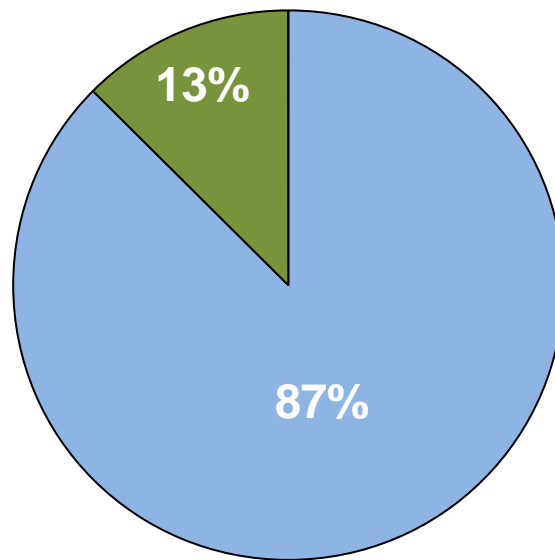
- I. Company overview and financial highlights
- II. Earnings
- III. Economic overview and customer growth
- IV. Regulation
- V. Capital expenditures, debt redemptions and liquidity, and credit ratings
- VI. Dividends
- VII. 2013 expectations and focus

Two Business Segments

Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (NPL)

TMTD 12/31/12 Net Income
\$133MM



■ **Natural gas operations**

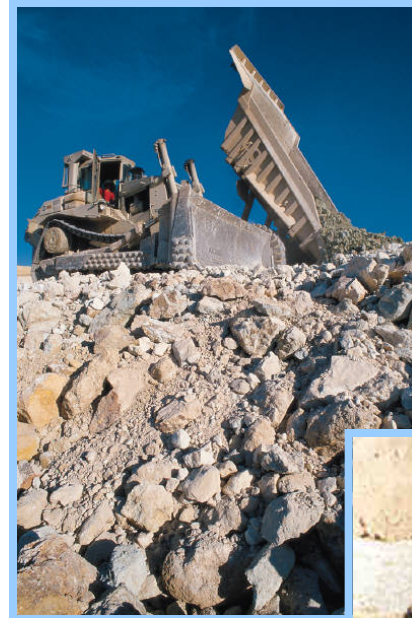
\$116MM net income

■ **Construction services**

\$17MM net income



- Full-service underground piping contractor
- Primary focus is:
 - trenching – replacement
 - installation – maintenance
- Operates in numerous major markets nationwide
- Competition is primarily limited to several regional competitors





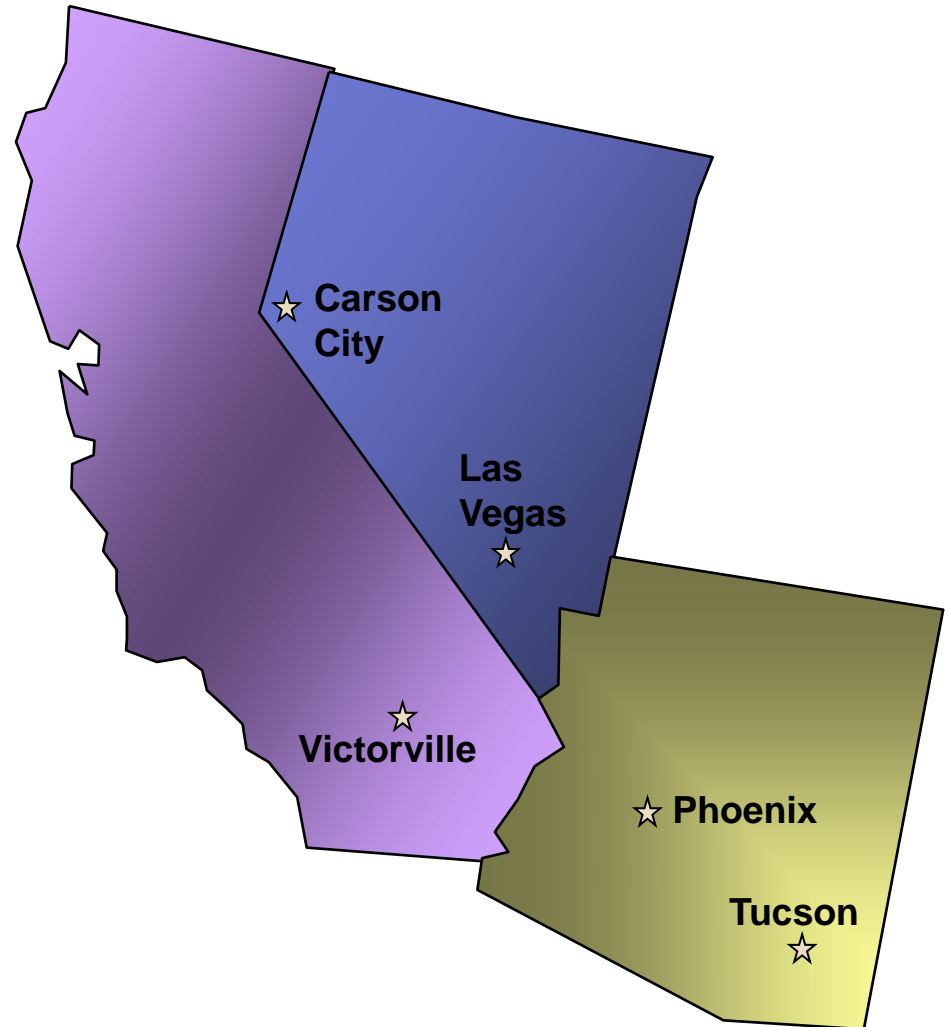
High Quality Customer Base



SOUTHWEST GAS

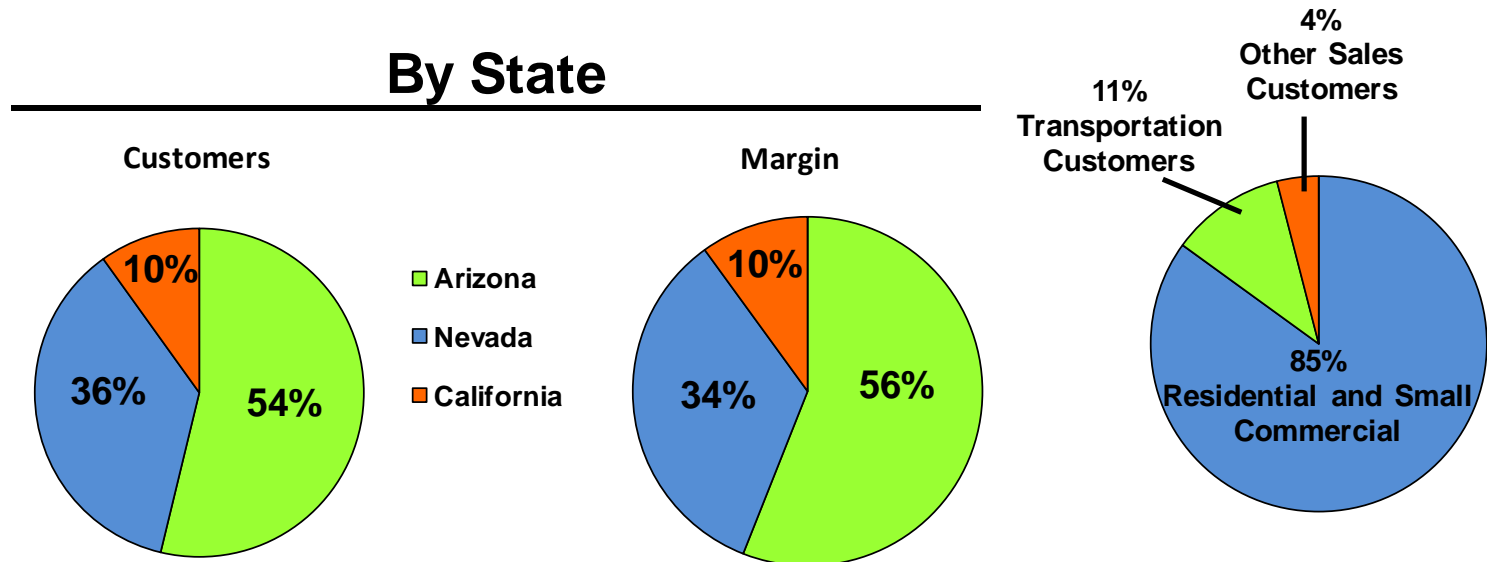
Southwest Gas is a Regional Leader in Natural Gas Distribution

- Headquartered in Las Vegas
- Largest distributor of natural gas in Arizona and Nevada
- Distributes and transports natural gas in parts of California
- **1,876,000** customers in service territory at 12/31/2012
- Over **99%** of customers are residential and small commercial



Stable Customer Base

TMTD December 31, 2012 Customer & Operating Margin Distribution



➤ Consistent trends year over year

Financial Highlights

- Record EPS of \$2.89
- Dividend increase for seventh consecutive year
- Margin decoupling in all areas
- Nevada rate relief
- 2nd highest earning year for construction services
- Improvement during 4th quarter in NPL contract loss

Summary Operating Results

(In thousands, except per share amounts)

TWELVE MONTHS ENDED DECEMBER 31,

	2010	2011	2012
Contribution to net income - natural gas operations	\$ 91,382	\$ 91,420	\$ 116,619
Contribution to net income - construction services	12,495	20,867	16,712
Net income	<u>\$ 103,877</u>	<u>\$ 112,287</u>	<u>\$ 133,331</u>
Basic earnings per share	<u>\$ 2.29</u>	<u>\$ 2.45</u>	<u>\$ 2.89</u>
Diluted earnings per share	<u>\$ 2.27</u>	<u>\$ 2.43</u>	<u>\$ 2.86</u>
Average outstanding common shares	45,405	45,858	46,115
Average shares outstanding (assuming dilution)	45,823	46,291	46,555

Results of Consolidated Operations

Contribution to net income - natural gas operations
 Contribution to net income - construction services
 Net income

Basic earnings per share
 Diluted earnings per share

Average outstanding common shares
 Average shares outstanding (assuming dilution)

Construction Services Highlights



- Record revenues achieved – 25% increase over prior year
- Significant realized gains on equipment sales
- Improvement in fixed-price contract loss during 4th quarter
- Structural changes implemented



Summary Operating Results

Construction Services

(In thousands)



	TWELVE MONTHS ENDED DECEMBER 31,		
	2010	2011	2012
Results of Construction Services			
Construction revenues	\$ 318,464	\$ 483,822	\$ 606,050
Operating expenses:			
Construction expenses	277,804	423,703	541,523
Depreciation and amortization	20,007	25,216	37,387
Operating income	20,653	34,903	27,140
Other income (deductions)	(166)	(8)	246
Net interest deductions	564	825	1,063
Income tax expense	7,852	13,727	10,303
Noncontrolling interest	(424)	(524)	(692)
Contribution to net income	<u>\$ 12,495</u>	<u>\$ 20,867</u>	<u>\$ 16,712</u>

Natural Gas Operations Highlights

- Record contribution to earnings
- Margin decoupling in all areas
- Strong returns on COLI investments
- Favorable refinancing results
- Nevada rate relief

Summary Operating Results

Natural Gas Operations

(In thousands)

TWELVE MONTHS ENDED DECEMBER 31,

2010

2011

2012

Results of Natural Gas Operations

Gas operating revenues	\$ 1,511,907	\$ 1,403,366	\$ 1,321,728
Net cost of gas sold	736,175	613,489	479,602
Operating margin	775,732	789,877	842,126
Operations and maintenance expense	354,943	358,498	369,979
Depreciation and amortization	170,456	175,253	186,035
Taxes other than income taxes	38,869	40,949	41,728
Operating income	211,464	215,177	244,384
Other income (deductions)	4,016	(5,404)	4,165
Net interest deductions	75,113	68,777	66,957
Net interest deductions on subordinated debentures	1,912	-	-
Income before income taxes	138,455	140,996	181,592
Income tax expense	47,073	49,576	64,973
Contribution to net income - gas operations	\$ 91,382	\$ 91,420	\$ 116,619



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2012 Increase in Operating Margin

Natural Gas Operations

(In millions)

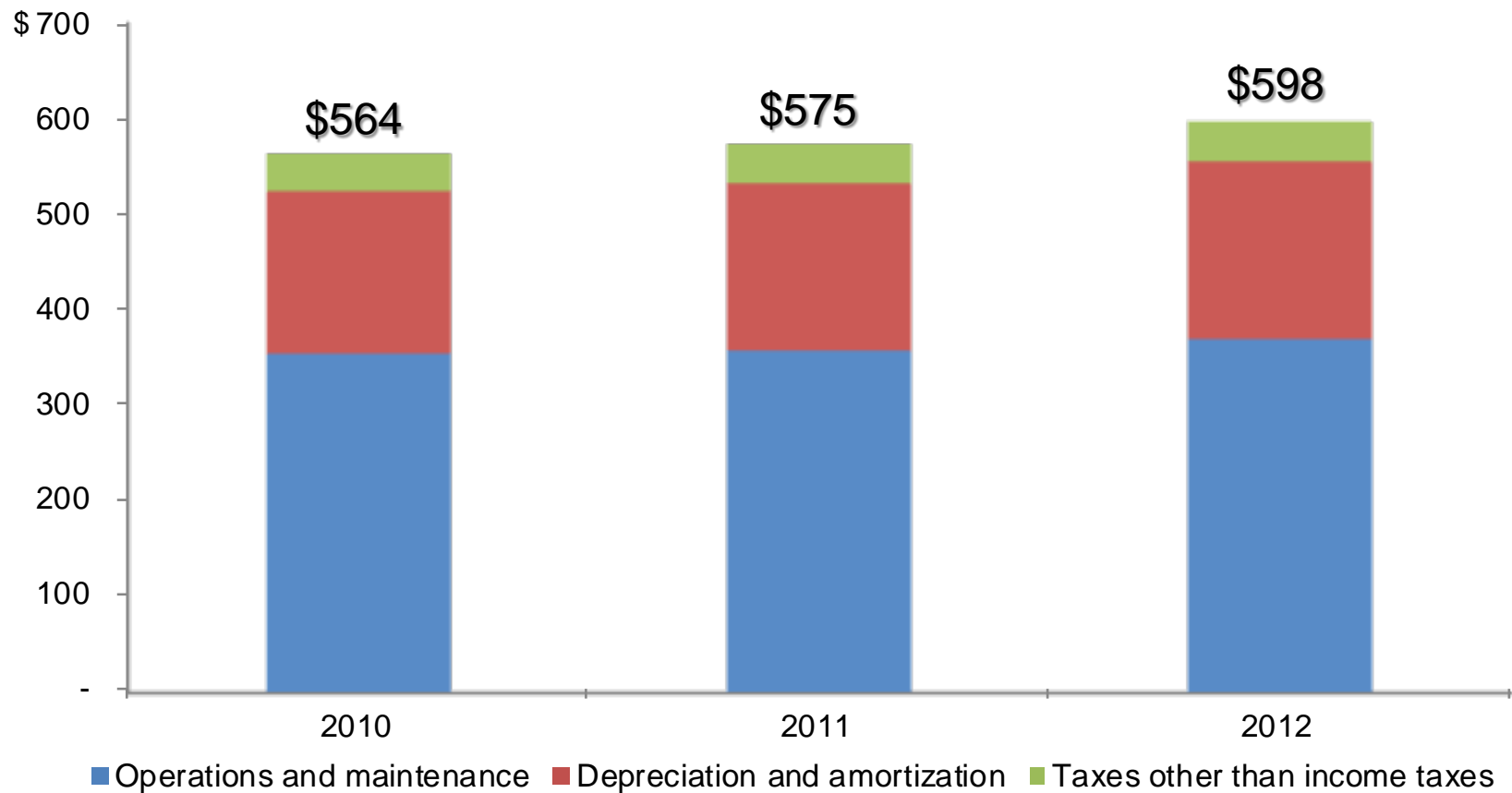
Rate relief	\$ 47
Customer growth	5
Increase	<u>\$ 52</u>

- With the rate decoupling mechanism in all three states, including Arizona, which was effective January 2012, weather is no longer a significant factor in operating margin overall

Operating Expense

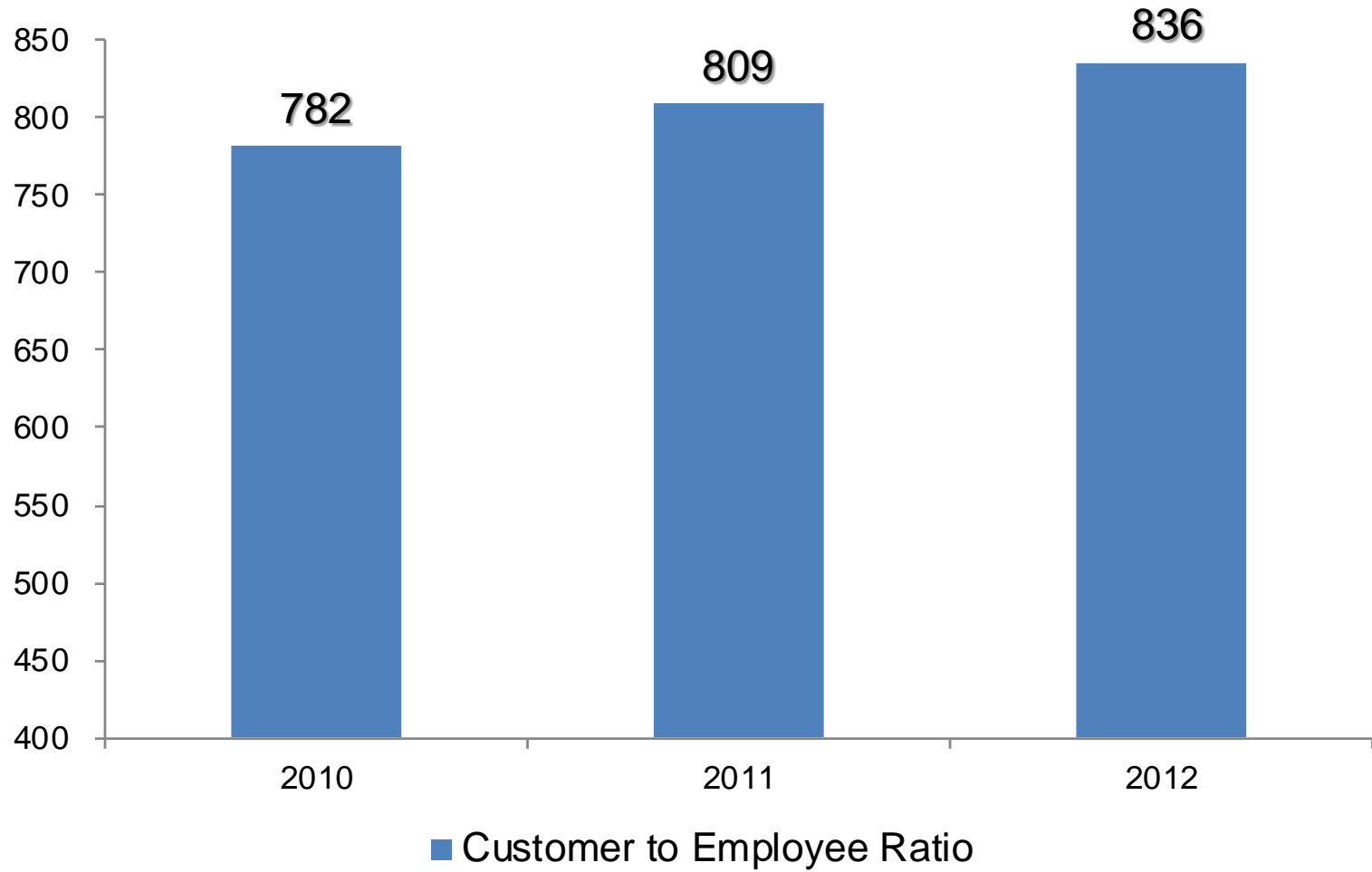
Natural Gas Operations

(In millions)



Customer to Employee Ratio

Natural Gas Operations



Net Financing Costs

Natural Gas Operations

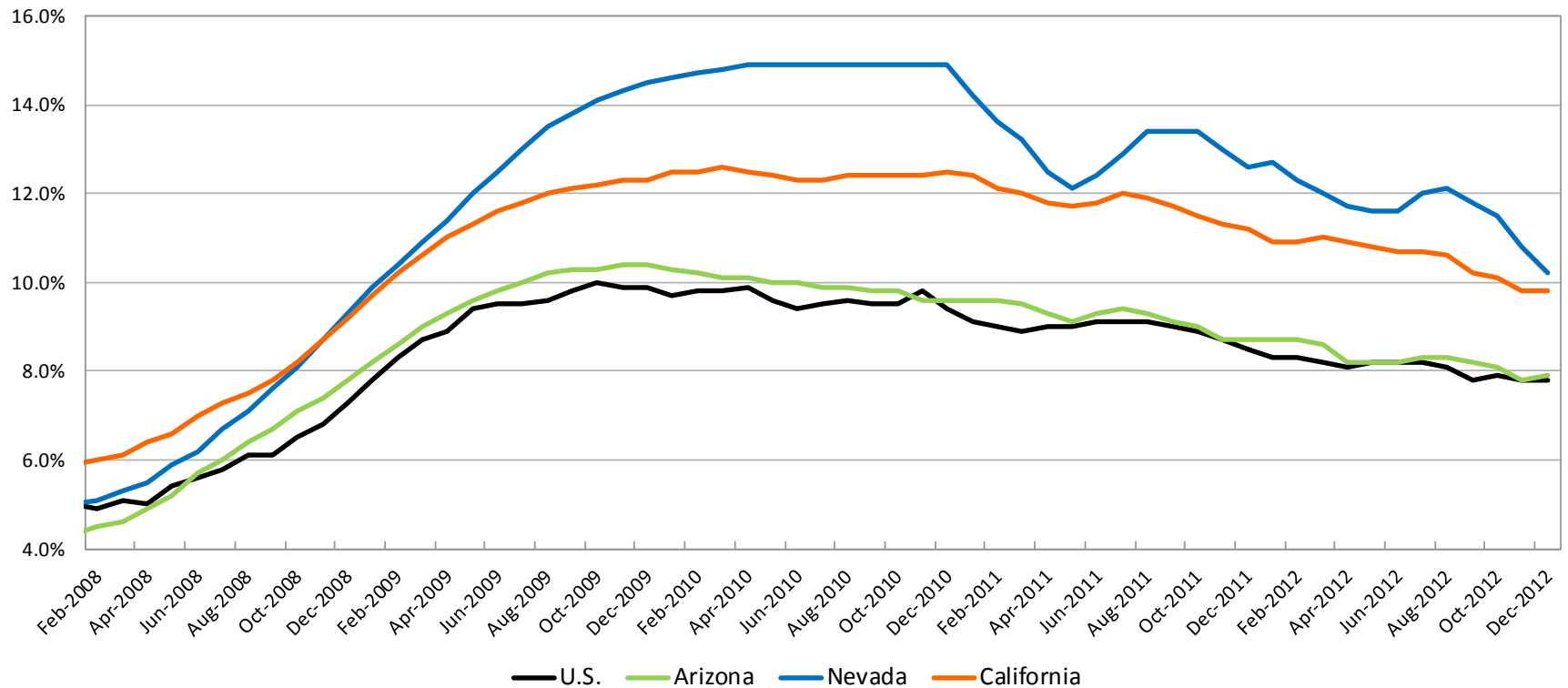
Declined by \$1.8 million, or 2.6%, from \$68.8 million in 2011 to \$67 million in 2012

- Primarily due to cost savings from refinancing
 - \$200 million 7.625% Senior Notes
 - \$12.4 million 6.10% 1999 Industrial Development Revenue Bonds (IDRBs)
 - \$14.3 million 5.95% 1999 IDRBs
- Partially offset by:
 - Temporary increase in debt associated with the issuance of \$250 million 3.875% Senior Notes in March 2012 to repay \$200 million 7.625% Senior Notes that matured in May 2012
 - Higher interest expense on variable rate IDRBs

Economic Overview

Service Area

Unemployment Rate
Seasonally Adjusted Data



Economic Overview

Service Area

Employment Growth

	As of December	
	2011	2012
Southern California	2.0%	1.1%
Nevada	0.3%	1.7%
Arizona	1.6%	2.3%

Customer Growth Breakdown

	TWELVE MONTHS ENDED DECEMBER 31,		
	2010	2011	2012
Beginning period	1,824	1,837	1,859
New meter sets	16	13	17
Meter turn-on/turn-offs	(3)	9	-
Ending period	<u>1,837</u>	<u>1,859</u>	<u>1,876</u>

- Total excess inactive meters at December 31, 2012 approximated 37,000

Regulation – Nevada

Initial Rate Case Decision

Public Utilities Commission of Nevada (PUCN) reached decision during the 4th Quarter of 2012 with new rates effective November 2012

- Decision provides for an annual revenue increase of \$7 million
- Including depreciation and tax changes, annual operating income is expected to increase by \$11.4 million
- Expedited rulemaking ordered for proposed infrastructure recovery mechanism

Regulation – Nevada

Rate Case Decision – Petition for Reconsideration

- Southwest filed a Petition for Reconsideration November 2012
 - Requested adoption of the capital structure supported by all parties
 - Requested recovery of a variety of disallowed costs
- PUCN Staff filed a Petition for Rehearing November 2012
- Decision received December 2012
 - Denied Southwest's request related to capital structure reconsideration
 - Granted PUCN Staff's requested Petition for Capital Structure Rehearing on capital structure issue

Regulation – Nevada

Rate Case Decision – Rehearing

- Rehearing related to Capital Structure held January 2013
- Proposed modified order issued on February 22, 2013 and approved on March 14, 2013
 - Order provides for an incremental annual revenue increase of approximately \$500,000

	<u>Original Order</u>		<u>Final Order</u>	
	<u>SNV</u>	<u>NNV</u>	<u>SNV</u>	<u>NNV</u>
ROE	9.85%	9.20%	10.00%	9.30%
Common Equity Ratio	42.60%	65.60%	42.74%	59.06%

Regulation – Arizona

December 2011, the Arizona Corporation Commission approved a settlement with new rates effective January 2012

- Full revenue per customer decoupling
- Monthly weather adjustor
- 9.50% ROE on 52.3% common equity
- 5 ½ year rate case moratorium
- Periodic review requirements

Regulation – California

Annual Attrition

As part of the 2009 decision by the California Public Utilities Commission (CPUC) in the last California general rate case, attrition increases were authorized for the years 2010 – 2013

➤ 2013 amounts (thousands of dollars)

Attrition Adjustment	\$ 2,400
Automatic Rate of Return Adjustment	(1,300)
Net Margin Increase	<u>\$ 1,100</u>

Regulation – California

General Rate Case

Filed with the CPUC December 2012, based on a 2014 future test year

- Requested annual revenue increases of \$11.6 million
- Capital structure consisting of 43 percent long-term debt and 57 percent common equity
- Requested attrition years of 2015 - 2018
- Proposed an Infrastructure Reliability and Replacement Adjustment Mechanism
- Rates to become effective January 1, 2014

Pipe Replacement Tracking Mechanisms

➤ Customer-owned yard lines (COYLs) in Arizona

- Line testing, of all affected customers (approximately 100,000) who grant approval, over a three-year period, 2012 -2014
- Replacement, with normal service line configuration, wherever leaks are found and permitted
- As of December 31, 2012, approximately 50,000 COYL services evaluated and 2,000 relocated at a cost of \$4 million

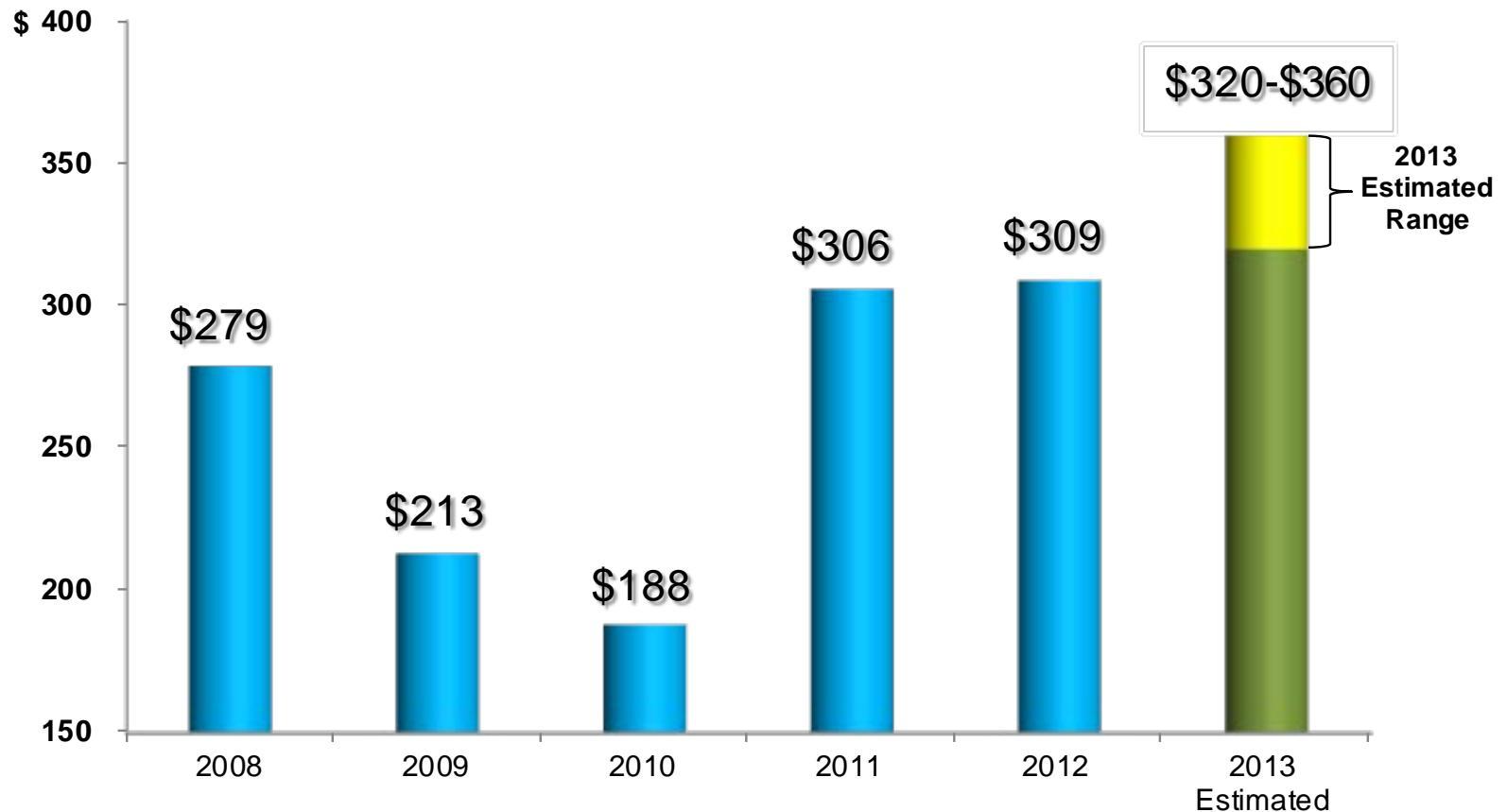
➤ PUCN Rulemaking Docket

- Southwest proposed an infrastructure recovery mechanism in its 2012 rate case seeking to replace up to \$40 million of aging steel and plastic pipe annually
- The PUCN's rate case decision authorized the opening of a separate rulemaking in January 2013 to review the merits of gas infrastructure recovery mechanisms
- The Company anticipates the PUCN will issue a decision in this rulemaking docket by the end of the third quarter of this year
- Regulatory asset request filed March 2013 for early vintage plastic pipe program in Nevada covering an accelerated replacement of \$15.6 million in 2013



Capital Expenditures Natural Gas Operations

(In millions)



2013 - 2015 Estimate: \$1 billion



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Debt Redemptions and Liquidity

- In March 2013, retired \$30 million 2003 5.45% Series C and \$15 million 2003 5.80% Series E IDRBS originally due in 2038
- \$300 million revolving credit facility
 - Refinanced in March 2012 and matures in March 2017
 - Supports a \$50 million commercial paper program
 - Historically low usage
 - Management believes facility size is adequate

Investment Grade Credit Ratings

Moody's

- Senior Unsecured Debt:
- Outlook:

Rating

Baa1 (March 2012)
Stable

Standard & Poor's

- Senior Unsecured Debt:
- Outlook:

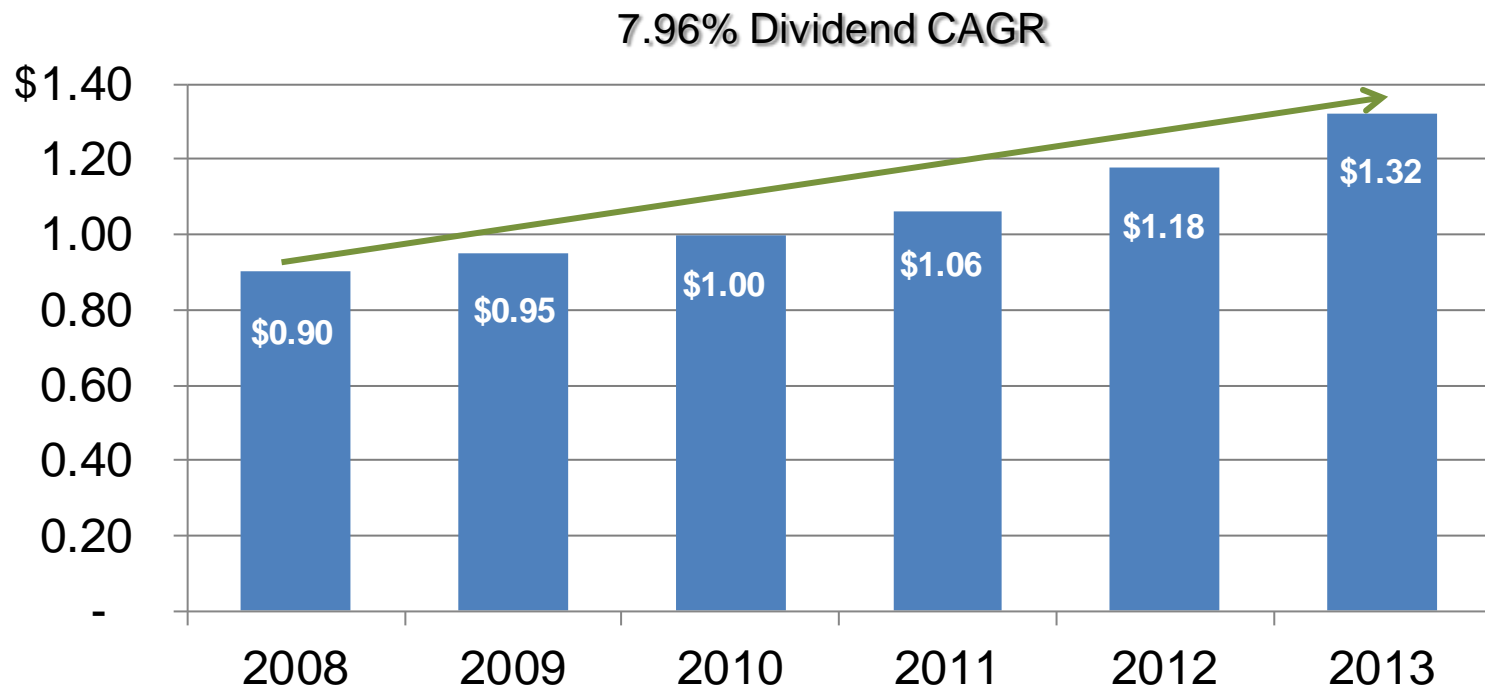
A- (March 2013)
Stable

Fitch

- Senior Unsecured Debt:
- Outlook:

A- (May 2012)
Positive

Dividend Growth



CAGR = compound annual growth rate

Dividend Growth Policy

Over time, the Board intends to increase the dividend such that our payout ratio approaches our local distribution company peer group average while maintaining our strong credit ratings and our ability to effectively fund future rate base growth. The timing and amount of any increases would be based upon the Board's continual review of our dividend rate in the context of the performance of the Company's two operating segments and their future growth prospects.

2013 Expectations

Construction Services



- 2013 revenues expected to approximate 2012 levels
- Currently negotiating 2013 contracts
 - Additional clarity on expected revenues upon completion
- 2013 construction expenses favorably impacted by elimination of loss on fixed price contract
- 2013 construction expenses to be negatively impacted by:
 - Reduced gains on sales of equipment
 - Full year of costs associated with the structural changes made to management and support functions

2013 Expectations

Natural Gas Operations

- Nevada rate case decision and California attrition adjustment
- Net customer growth similar to 2012
- Operating costs increase assumption of 3% to 4%
- Financing costs should improve
- Average annual COLI returns of \$2 million – \$4 million
- Expanded focus on infrastructure trackers
- California general rate case filed December 2012 for new rates effective January 2014

Focus

- Emphasize core values of safety, service, and reliability
- Work collaboratively with regulators
- Improve operating efficiencies to manage costs
- Seek prudent growth opportunities in two operating segments
- Strive to exceed our customers' expectations
- Over time, increase the dividend payout to approach the industry average

APPENDIX



Other Income and Deductions

Natural Gas Operations

(In thousands)

	TWELVE MONTHS ENDED		
	2010	2011	2012
Change in COLI policies	\$ 9,770	\$ 700	\$ 6,600
Pipe replacement costs	(5,024)	(4,761)	(2,680)
Miscellaneous income and (expense)	(730)	(1,343)	245
Total other income (deductions)	<u>\$ 4,016</u>	<u>\$ (5,404)</u>	<u>\$ 4,165</u>

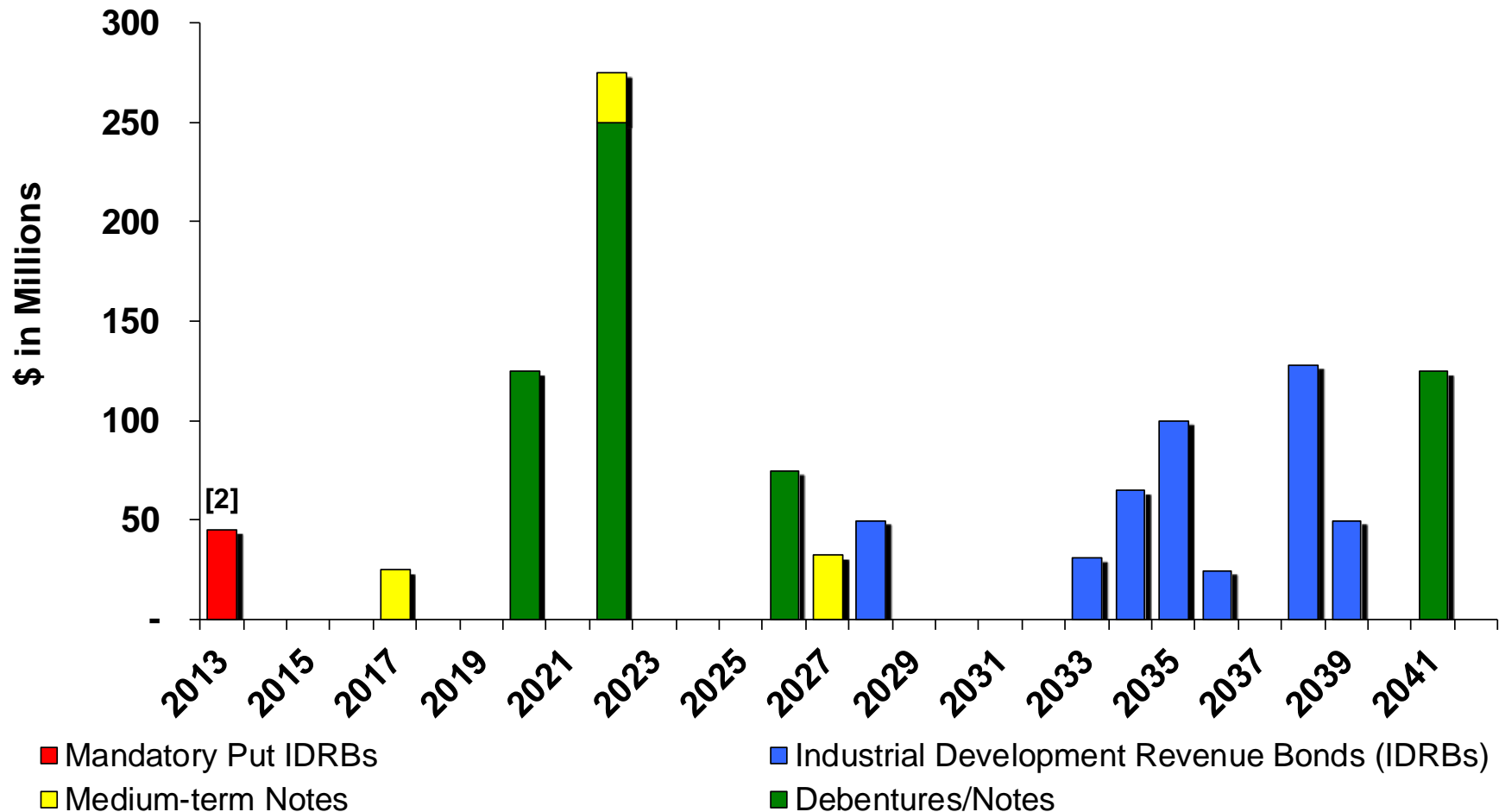
Purchased Gas Adjustment (PGA) Balances

(In millions)

	AS OF DECEMBER 31,	
	2011	2012
Arizona	\$ (28.4)	\$ (46.6)
Northern Nevada	(7.9)	(7.1)
Southern Nevada	(36.1)	(45.2)
California	2.3	6.0
Total Receivable/(Payable)	<u>\$ (70.1)</u>	<u>\$ (92.9)</u>



Long-Term Debt Maturity Schedule^[1] at December 31, 2012



[1] Does not include the long-term portion of the \$300 million Revolving Credit Facility, due March 2017.

[2] Clark County IDRB Series 2003 C (\$30MM) and E (\$15MM) due March 1, 2038; mandatory put on March 1, 2013. Southwest purchased the Bonds promptly after the mandatory tender and retired this debt.

Capital Structure

(In millions)

Capitalization at December 31,	2008	2009	2010	2011	2012
Common Equity	\$ 1,038	\$ 1,102	\$ 1,167	\$ 1,225	\$ 1,308
Subordinated Debentures	100	100	-	-	-
Long-Term Debt ¹	1,193	1,171	1,200	1,254	1,319
Total Permanent Capital	<u>\$ 2,331</u>	<u>\$ 2,373</u>	<u>\$ 2,367</u>	<u>\$ 2,479</u>	<u>\$ 2,627</u>
Capitalization ratios					
Common Equity	44.5%	46.4%	49.3%	49.4%	49.8%
Subordinated Debentures	4.3%	4.2%	0.0%	0.0%	0.0%
Long-Term Debt ¹	51.2%	49.4%	50.7%	50.6%	50.2%
Total Permanent Capital	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

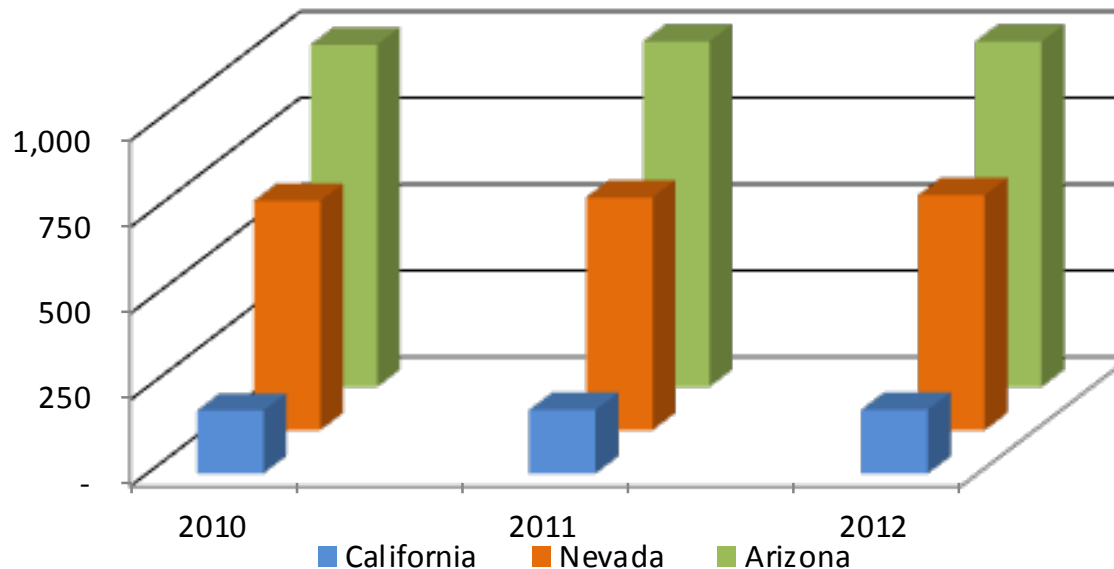
¹Includes current maturities of long-term debt

Natural Gas Operations

Customers by State

(In thousands)

	AS OF DECEMBER 31,		
	2010	2011	2012
Arizona	991	1,001	1,010
Nevada	664	674	681
California	182	184	185
Total	1,837	1,859	1,876



Natural Gas Operations

Customers by Class

(In thousands)

	AT DECEMBER 31,		
	2010	2011	2012
Residential	1,758	1,780	1,797
Commercial	78	78	78
Other	1	1	1
Total	1,837	1,859	1,876



System Throughput

Customer Class

(In thousands of therms)

	TWELVE MONTHS ENDED DECEMBER 31,		
	2010	2011	2012
Residential	704,693	718,765	655,046
Small commercial	300,940	303,923	270,665
Large commercial	111,833	112,256	116,582
Industrial/Other	58,922	50,208	47,830
Transportation	998,600	941,544	998,095
Total	<u>2,174,988</u>	<u>2,126,696</u>	<u>2,088,218</u>



Authorized Rate Base and Rates of Return

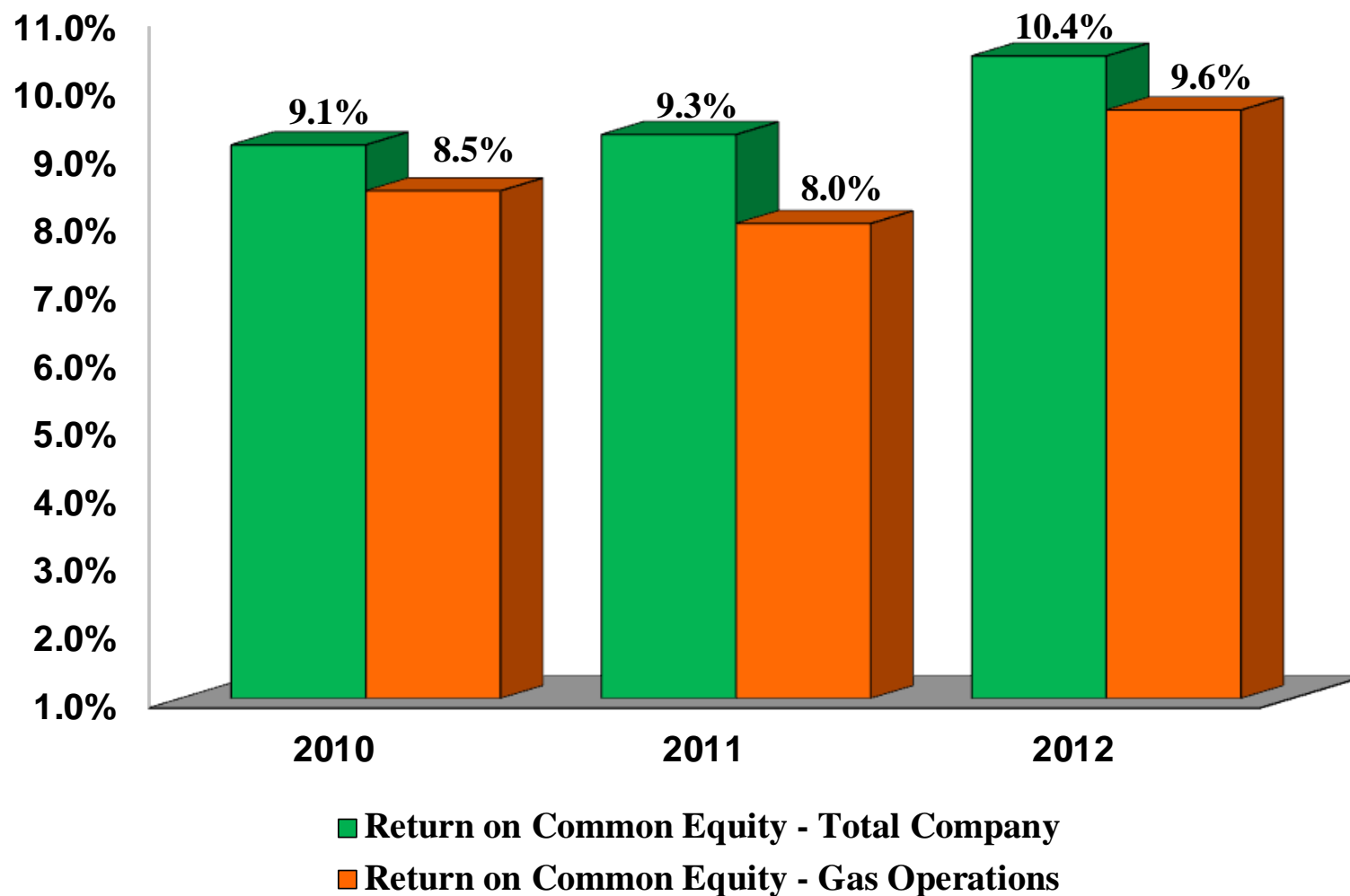
<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity</u>
Arizona	\$ 1,070,116	8.95 %	9.50 %
Southern Nevada (1)	825,256	6.56 %	10.00 %
Northern Nevada (1)	115,933	7.89 %	9.30 %
Southern California (2)	143,851	6.10 %	9.35 %
Northern California (2)	52,285	7.77 %	9.35 %
South Lake Tahoe (2)	11,815	7.77 %	9.35 %
Paiute Pipeline Company (3)	84,717	9.47 %	12.00 %

(1) Authorized rate of return and authorized return on common equity as of March 2013

(2) Authorized rate of return and authorized return on common equity effective January 2013

(3) Estimated amounts based on rate case settlement

Return on Common Equity



Stock Price Graph

Southwest Gas Corporation
Common Stock Closing Price
December 31, 2002 – December 31, 2012



Comparative Total Returns

Total Returns for Periods Ended December 31, 2012

	1-Year	3-Year	5-Year	10-Year
Southwest Gas	2.54%	17.41%	10.79%	9.49%
S&P 600 Small Gas Index	(5.74%)	9.73%	6.86%	11.36%
Dow Jones Utilities	1.34%	8.89%	0.95%	11.93%
S&P 500 Index	15.89%	10.86%	1.66%	7.09%

Total Return = Price appreciation plus gross dividends reinvested