UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2000

Commission File Number 1-7850

SOUTHWEST GAS CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| California | 88-0085720 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 5241 Spring Mountain Road<br>Post Office Box 98510<br>Las Vegas, Nevada | 89193-8510 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (702) 876-7237

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, $1 Par Value, 31,386,420 shares as of August 7, 2000.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)

| ASSETS | JUNE 30, 2000 (Unaudited) | DECEMBER 31, 1999 |
|---|---|---|
| Utility plant: | | |
| Gas plant | $ 2,280,139 | $ 2,203,223 |
| Less: accumulated depreciation | (690,622) | (662,510) |
| Acquisition adjustments | 3,313 | 3,503 |
| Construction work in progress | 33,293 | 36,886 |
| Net utility plant | 1,626,123 | 1,581,102 |
| Other property and investments | 92,559 | 84,850 |
| Current assets: | | |
| Cash and cash equivalents | 9,270 | 17,126 |
| Accounts receivable, net of allowances | 64,174 | 88,476 |
| Accrued utility revenue | 23,373 | 56,373 |
| Deferred income taxes | 9,041 | 6,141 |
| Deferred purchased gas costs | 1,278 | 9,051 |
| Prepaids and other current assets | 26,518 | 31,971 |
| Total current assets | 133,654 | 209,138 |
| Deferred charges and other assets | 46,880 | 48,352 |
| Total assets | $ 1,899,216 | $ 1,923,442 |

CAPITALIZATION AND LIABILITIES

| | | |
|---|---|---|
| Capitalization: | | |
| Common stock, $1 par (authorized - 45,000,000 shares; issued and outstanding - 31,357,894 and 30,985,120 shares) | $ 32,988 | $ 32,615 |
| Additional paid-in capital | 446,613 | 439,262 |
| Retained earnings | 36,144 | 33,548 |
| Total common equity | 515,745 | 505,425 |
| Redeemable preferred securities of Southwest Gas Capital I | 60,000 | 60,000 |
| Long-term debt, less current maturities | 860,399 | 859,291 |
| Total capitalization | 1,436,144 | 1,424,716 |
| Current liabilities: | | |
| Current maturities of long-term debt | 6,802 | 7,931 |
| Short-term debt | 39,075 | 61,000 |
| Accounts payable | 41,926 | 64,247 |
| Customer deposits | 28,257 | 27,408 |
| Accrued taxes | 45,957 | 40,611 |
| Accrued interest | 14,321 | 14,270 |
| Other current liabilities | 50,509 | 49,423 |
| Total current liabilities | 226,847 | 264,890 |
| Deferred income taxes and other credits: | | |
| Deferred income taxes and investment tax credits | 180,760 | 178,438 |
| Other deferred credits | 55,465 | 55,398 |
| Total deferred income taxes and other credits | 236,225 | 233,836 |
| Total capitalization and liabilities | $ 1,899,216 | $ 1,923,442 |

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | | TWELVE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 | 2000 | 1999 |
| Operating revenues: | | | | | | |
| Gas operating revenues | $ 157,885 | $ 166,679 | $ 424,964 | $ 445,789 | $ 770,330 | $ 806,006 |
| Construction revenues | 39,749 | 33,613 | 69,485 | 62,528 | 152,668 | 134,122 |
| Total operating revenues | 197,634 | 200,292 | 494,449 | 508,317 | 922,998 | 940,128 |
| Operating expenses: | | | | | | |
| Net cost of gas sold | 70,190 | 71,839 | 193,694 | 207,725 | 316,000 | 342,819 |
| Operations and maintenance | 56,340 | 55,378 | 113,667 | 108,944 | 225,981 | 215,085 |
| Depreciation and amortization | 26,296 | 24,134 | 52,434 | 48,301 | 102,658 | 94,063 |
| Taxes other than income taxes | 7,439 | 7,299 | 15,112 | 14,511 | 28,211 | 30,340 |
| Construction expenses | 34,786 | 30,112 | 60,340 | 54,581 | 133,989 | 117,849 |
| Total operating expenses | 195,051 | 188,762 | 435,247 | 434,062 | 806,839 | 800,156 |
| Operating income | 2,583 | 11,530 | 59,202 | 74,255 | 116,159 | 139,972 |
| Other income and (expenses): | | | | | | |
| Net interest deductions | (16,951) | (14,800) | (33,737) | (29,670) | (67,269) | (61,205) |
| Preferred securities distributions | (1,369) | (1,369) | (2,738) | (2,738) | (5,475) | (5,475) |
| Other income (deductions) | (1,241) | (42) | (456) | 235 | (2,271) | (1,693) |
| Total other income and (expenses) | (19,561) | (16,211) | (36,931) | (32,173) | (75,015) | (68,373) |
| Income (loss) before income taxes | (16,978) | (4,681) | 22,271 | 42,082 | 41,144 | 71,599 |
| Income tax expense (benefit) | (7,249) | (1,085) | 6,802 | 17,412 | 11,035 | 32,831 |
| Net income (loss) | $ (9,729) | $ (3,596) | $ 15,469 | $ 24,670 | $ 30,109 | $ 38,768 |
| Basic earnings (loss) per share | $ (0.31) | $ (0.12) | $ 0.50 | $ 0.81 | $ 0.97 | $ 1.29 |
| Diluted earnings (loss) per share | $ (0.31) | $ (0.12) | $ 0.49 | $ 0.80 | $ 0.96 | $ 1.28 |
| Dividends paid per share | $ 0.205 | $ 0.205 | $ 0.41 | $ 0.41 | $ 0.82 | $ 0.82 |
| Average number of common shares outstanding | 31,289 | 30,621 | 31,215 | 30,559 | 31,100 | 30,123 |
| Average shares outstanding (assuming dilution) | - | - | 31,384 | 30,830 | 31,325 | 30,372 |

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

| | SIX MONTHS ENDED JUNE 30, | | TWELVE MONTHS ENDED JUNE 30, | |
|---|---|---|---|---|
| | 2000 | 1999 | 2000 | 1999 |
| CASH FLOW FROM OPERATING ACTIVITIES: | | | | |
| Net income | $ 15,469 | $ 24,670 | $ 30,109 | $ 38,768 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 52,434 | 48,301 | 102,658 | 94,063 |
| Deferred income taxes | (578) | (17,103) | (3,471) | (12,336) |
| Changes in current assets and liabilities: | | | | |
| Accounts receivable, net of allowances | 24,302 | 30,051 | (6,188) | (1,330) |
| Accrued utility revenue | 33,000 | 33,873 | (373) | (1,500) |
| Deferred purchased gas costs | 7,773 | 60,601 | (4,284) | 66,308 |
| Accounts payable | (21,824) | (24,938) | 3,066 | 4,126 |
| Accrued taxes | 5,346 | 15,049 | (2,572) | 23,238 |
| Other current assets and liabilities | 7,617 | (2,610) | 12,964 | 6,556 |
| Other | (682) | (517) | 2,131 | (601) |
| Net cash provided by operating activities | 122,857 | 167,377 | 134,040 | 217,292 |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | | |
| Construction expenditures and property additions | (103,278) | (111,626) | (221,155) | (218,704) |
| Other | (321) | 2,833 | 367 | 14,329 |
| Net cash used in investing activities | (103,599) | (108,793) | (220,788) | (204,375) |
| CASH FLOW FROM FINANCING ACTIVITIES: | | | | |
| Issuance of common stock, net | 7,724 | 6,447 | 16,274 | 68,995 |
| Dividends paid | (12,796) | (12,529) | (25,431) | (24,931) |
| Issuance of long-term debt, net | 3,914 | 12,002 | 45,260 | 49,565 |
| Retirement of long-term debt, net | (4,031) | (2,850) | (7,349) | (5,897) |
| Temporary changes in long-term debt | - | (27,000) | 27,000 | (27,000) |
| Change in short-term debt | (21,925) | (43,630) | 30,705 | (69,680) |
| Net cash provided by (used in) financing activities | (27,114) | (67,560) | 86,459 | (8,948) |
| Change in cash and temporary cash investments | (7,856) | (8,976) | (289) | 3,969 |
| Cash at beginning of period | 17,126 | 18,535 | 9,559 | 5,590 |
| Cash at end of period | $ 9,270 | $ 9,559 | $ 9,270 | $ 9,559 |
| Supplemental information: | | | | |
| Interest paid, net of amounts capitalized | $ 32,740 | $ 29,512 | $ 64,078 | $ 59,965 |
| Income taxes paid (received), net | 240 | 16,851 | 13,374 | 20,345 |

The accompanying notes are an integral part of these statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations. Southwest Gas Corporation (the Company) is comprised of two segments: natural gas operations (Southwest or the natural gas operations segment) and construction services. Southwest purchases, transports, and distributes natural gas to customers in portions of Arizona, Nevada, and California. Southwest's public utility rates, practices, facilities, and service territories are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months. Variability in weather from normal temperatures can materially impact results of operations. Northern Pipeline Construction Co. (Northern or the construction services segment), a wholly owned subsidiary, is a full-service underground piping contractor which provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the 1999 Annual Report to Shareholders, which is incorporated by reference into the Form 10-K, and the 2000 First Quarter Report on Form 10-Q.

Intercompany Transactions. The construction services segment recognizes revenues generated from contracts with Southwest (see Note 2 below). Accounts receivable for these services were $4.7 million at June 30, 2000 and $4.4 million at December 31, 1999. The accounts receivable balance, revenues, and associated profits are included in the consolidated financial statements of the Company and were not eliminated during consolidation. Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," provides that intercompany profits on sales to regulated affiliates should not be eliminated in consolidation if the sales price is reasonable and if future revenues approximately equal to the sales price will result from the rate-making process. Management believes these two criteria are being met.

NOTE 2 - SEGMENT INFORMATION

The following tables list revenues from external customers, intersegment revenues, and segment net income (thousands of dollars):

| | Natural Gas Operations | Construction Services | Total |
|---|---|---|---|
| Six months ended June 30, 2000 | | | |
| Revenues from external customers | $ 424,964 | $ 44,890 | $ 469,854 |
| Intersegment revenues | -- | 24,595 | 24,595 |
| Total | $ 424,964 | $ 69,485 | $ 494,449 |
| Segment net income | $ 13,415 | $ 2,054 | $ 15,469 |
| Six months ended June 30, 1999 | | | |
| Revenues from external customers | $ 445,789 | $ 40,184 | $ 485,973 |
| Intersegment revenues | -- | 22,344 | 22,344 |
| Total | $ 445,789 | $ 62,528 | $ 508,317 |
| Segment net income | $ 22,689 | $ 1,981 | $ 24,670 |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is principally engaged in the business of purchasing, transporting, and distributing natural gas. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of southern, central, and northwestern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor and transporter of natural gas in Nevada, and serves the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area in northern California and the high desert and mountain areas in San Bernardino County.

Southwest purchases, transports, and distributes natural gas to approximately 1,298,000 residential, commercial, industrial and other customers, of which 57 percent are located in Arizona, 34 percent are in Nevada, and 9 percent are in California. During the twelve months ended June 30, 2000, Southwest earned 56 percent of operating margin in Arizona, 35 percent in Nevada, and 9 percent in California. During this same period, Southwest earned 83 percent of operating margin from residential and small commercial customers, 4 percent from other sales customers, and 13 percent from transportation customers. These patterns are similar to prior years and are expected to continue.

Northern is a full-service underground piping contractor, which provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

### CAPITAL RESOURCES AND LIQUIDITY

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and construction services segments. Each business activity is generally responsible for securing its own financing sources. The capital requirements and resources of the construction services segment are not material to the overall capital requirements and resources of the Company.

Southwest continues to experience significant population growth throughout its service territories. This growth has required large amounts of capital to finance the investment in infrastructure, in the form of new transmission and distribution plant, to satisfy consumer demand. For the twelve months ended June 30, 2000, natural gas construction expenditures totaled $204 million. Approximately 74 percent of these current-period expenditures represented new construction and the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant. Cash flows from operating activities of Southwest (net of dividends) were $94 million for the twelve months ended June 30, 2000. Operating cash flows were below prior year levels because previously deferred purchased gas costs are now fully recovered.

Southwest estimates construction expenditures during the three-year period ending December 31, 2002 will be approximately $630 million. During the three-year period, cash flow from operating activities (net of dividends) is estimated to fund approximately 60 percent of the gas operations total construction expenditures. The remaining cash requirements are expected to be provided by external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief and growth factors in Southwest service areas. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

During the second quarter of 2000, the Company began to experience significant increases in natural gas prices. Higher natural gas prices are expected through the upcoming winter heating season. The recent increase is primarily attributable to high demand for natural gas in generating electricity, a changing industry structure as the electric utility industry continues to deregulate, lower deliverability of natural gas due to a slowdown in natural gas drilling (now reversing) and lower natural gas storage levels. If natural gas prices remain near current levels or continue to rise, the Company will be required to increase short-term borrowings to finance gas supply requirements. The Company has adequate short-term borrowing capacity to meet this anticipated need. The Company ultimately recovers all prudently incurred gas costs, with interest, through its purchased gas adjustment (PGA) mechanisms. In Arizona, the Company adjusts gas cost recovery rates monthly. In Nevada, a request is pending before the Public Utilities Commission of Nevada (PUCN) to increase rates for the recovery of higher gas costs and to adjust gas cost recovery rates monthly rather than annually. The monthly adjustments are designed to provide a more timely recovery of gas costs. PGA changes impact cash flows but have no direct impact on profit margin. See separate discussion at Rates and Regulatory Proceedings Nevada PGA Filing.

In July 2000, the Company converted $14.3 million of taxable variable-rate industrial development revenue bonds, Series B, due 2038, to tax-exempt bonds bearing interest at 5.95 percent. These bonds are described in "Note 6 - Long-Term Debt" in the Notes to Consolidated Financial Statements of the 1999 Annual Report to Shareholders.

## RESULTS OF CONSOLIDATED OPERATIONS

### Quarterly Analysis

| | Contribution to Net Income (Loss) Three Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (Thousands of dollars) | |
| Natural gas operations | $ (10,949) | $ (4,376) |
| Construction services | 1,220 | 780 |
| Net income (loss) | $ (9,729) | $ (3,596) |

Loss per share for the quarter ended June 30, 2000 was $0.31, compared to a loss of $0.12 per share recorded during the corresponding quarter of the prior year. Earnings from natural gas operations decreased $0.21 per share. See separate discussion at Results of Natural Gas Operations. The contribution from construction services for the current quarter increased $0.02 per share compared to the corresponding quarter of the prior year.

### Six-Month Analysis

| | Contribution to Net Income Six Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (Thousands of dollars) | |
| Natural gas operations | $ 13,415 | $ 22,689 |
| Construction services | 2,054 | 1,981 |
| Net income | $ 15,469 | $ 24,670 |

Earnings per share for the six months ended June 30, 2000 were $0.50, compared to $0.81 per share recorded during the corresponding period of the prior year. Earnings contributed from natural gas operations decreased $0.31 per share. See separate discussion at Results of Natural Gas Operations. Construction services contributed per share earnings of $0.07, the same as the corresponding period of the prior year.

### Twelve-Month Analysis

| | Contribution to Net Income Twelve Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (Thousands of dollars) | |
| Natural gas operations | $ 26,199 | $ 35,088 |
| Construction services | 3,910 | 3,680 |
| Net income | $ 30,109 | $ 38,768 |

Earnings per share for the twelve months ended June 30, 2000 were $0.97, a $0.32 decrease from per share earnings of $1.29 recorded during the prior twelve-month period. Earnings contributed from natural gas operations decreased $0.33 per share. See separate discussion at Results of Natural Gas Operations. Construction services activities contributed per share earnings of $0.13, a $0.01 per share improvement over the prior twelve-month period.

The following table sets forth the ratios of earnings to fixed charges for the Company:

| | For the Twelve Months Ended | |
|---|---|---|
| | June 30, 2000 | December 31, 1999 |
| Ratio of earnings to fixed charges | 1.50 | 1.78 |

Earnings are defined as the sum of pretax income plus fixed charges. Fixed charges consist of all interest expense including capitalized interest, one-third of rent expense (which approximates the interest component of such expense), preferred securities distributions, and amortized debt costs.

Results of Natural Gas Operations

Quarterly Analysis

| | Three Months Ended June 30, | |
|---|---|---|
| | 2000 | 1999 |
| | (Thousands of dollars) | |
| Gas operating revenues | $ 157,885 | $ 166,679 |
| Net cost of gas sold | 70,190 | 71,839 |
| Operating margin | 87,695 | 94,840 |
| Operations and maintenance expense | 56,340 | 55,378 |
| Depreciation and amortization | 23,420 | 21,652 |
| Taxes other than income taxes | 7,439 | 7,299 |
| Operating income | 496 | 10,511 |
| Other income (expense) | (1,735) | (799) |
| Income (loss) before interest and income taxes | (1,239) | 9,712 |
| Net interest deductions | 16,498 | 14,431 |
| Preferred securities distributions | 1,369 | 1,369 |
| Income tax expense (benefit) | (8,157) | (1,712) |
| Contribution to consolidated net income (loss) | $ (10,949) | $ (4,376) |

Contribution from natural gas operations declined approximately $6.6 million in the second quarter of 2000 compared to the same period a year ago. The decline was principally the result of lower operating margin, and higher operating expenses and financing costs incurred as a result of the expansion and upgrading of the gas system to accommodate continued customer growth.

Operating margin decreased $7.1 million, or eight percent. Differences in heating demand between periods was the primary reason for the decrease. Temperatures were 25 percent above normal during the current period, whereas, in the prior period, temperatures were 34 percent colder-than-normal. Southwest served 64,000, or five percent, more customers than a year ago, which partially offset the impact of weather on operating margin.

Operations and maintenance expenses increased $1 million, or two percent, reflecting general increases in labor and maintenance costs. Depreciation expense and general taxes increased $1.9 million, or seven percent, as a result of construction activities. Average gas plant in service increased $176 million, or eight percent, as compared to the second quarter of 1999. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Net interest deductions increased $2.1 million, or 14 percent, due to higher average short-term debt outstanding, long-term debt issuances to finance construction and increased interest rates on variable-rate debt instruments.

Other income (expense) in the current period included a $1.9 million pretax charge to reflect a June 2000 settlement with the PUCN related to disallowed gas costs from the 1996/1997 winter heating season.

Six-Month Analysis

| | Six Months Ended June 30, 2000 | Six Months Ended June 30, 1999 |
|---|---|---|
| | (Thousands of dollars) | |
| Gas operating revenues | $ 424,964 | $ 445,789 |
| Net cost of gas sold | 193,694 | 207,725 |
| Operating margin | 231,270 | 238,064 |
| Operations and maintenance expense | 113,667 | 108,944 |
| Depreciation and amortization | 46,836 | 43,563 |
| Taxes other than income taxes | 15,112 | 14,511 |
| Operating income | 55,655 | 71,046 |
| Other income (expense) | (1,465) | (682) |
| Income before interest and income taxes | 54,190 | 70,364 |
| Net interest deductions | 32,885 | 29,063 |
| Preferred securities distributions | 2,738 | 2,738 |
| Income tax expense | 5,152 | 15,874 |
| Contribution to consolidated net income | $ 13,415 | $ 22,689 |

Contribution to consolidated net income declined approximately $9.3 million in the first six months of 2000 compared to the same period a year ago. The decline was principally the result of lower operating margin, and higher operating expenses and financing costs incurred as a result of the expansion and upgrading of the gas system to accommodate continued customer growth.

Operating margin decreased $6.8 million, or three percent. Temperatures in the current period were 12 percent above normal, which reduced operating margin $16.6 million between periods. Partially offsetting the weather-related impacts was an increase of approximately $9.8 million in operating margin due to customer growth.

Operations and maintenance expenses increased $4.7 million, or four percent, reflecting general increases in labor and maintenance costs along with incremental operating expenses associated with providing service to a steadily growing customer base.

Depreciation expense and general taxes increased $3.9 million, or seven percent, as a result of construction activities. Average gas plant in service increased $179 million, or nine percent, as compared to the six month period ended June 30, 1999. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Net interest deductions increased $3.8 million, or 13 percent, due to higher average short-term debt outstanding, long-term debt issuances to finance construction and increased interest rates on variable-rate debt instruments.

Other income (expense) in the current period includes a $1.9 million pretax charge to reflect a June 2000 settlement with the PUCN related to disallowed gas costs from the 1996/1997 winter heating season. The prior period includes $2.9 million ($2.5 million after tax) of costs related to the now terminated merger with ONEOK, Inc., partially offset by a $1.6 million litigation-related recovery by a nonconstruction, nonutility subsidiary.

Utility income tax expense, exclusive of changes in pretax income, decreased approximately $1.6 million between periods. The decrease was attributed to the favorable resolution of certain federal and state income tax issues during the current period.

Twelve-Month Analysis

| | Twelve Months Ended June 30, 2000 | 1999 |
|---|---|---|
| | (Thousands of dollars) | |
| Gas operating revenues | $ 770,330 | $ 806,006 |
| Net cost of gas sold | 316,000 | 342,819 |
| Operating margin | 454,330 | 463,187 |
| Operations and maintenance expense | 225,981 | 215,085 |
| Depreciation and amortization | 91,527 | 84,818 |
| Taxes other than income taxes | 28,211 | 30,340 |
| Operating income | 108,611 | 132,944 |
| Other income (expense) | (3,708) | (2,706) |
| Income before interest and income taxes | 104,903 | 130,238 |
| Net interest deductions | 65,419 | 60,008 |
| Preferred securities distributions | 5,475 | 5,475 |
| Income tax expense | 7,810 | 29,667 |
| Contribution to consolidated net income | $ 26,199 | $ 35,088 |

Contribution to consolidated net income decreased $8.9 million in the current twelve-month period compared to the corresponding prior twelve-month period. The decrease was primarily the result of lower operating margin, and higher operating expenses and increased financing costs incurred as a result of the expansion and upgrading of the gas system to accommodate continued customer growth.

Operating margin decreased $8.9 million, or two percent, between periods. Customer growth contributed $17 million of incremental margin. However, differences in heating demand more than offset the impact of customer growth as temperatures were 14 percent above normal during the current period.

Operations and maintenance expenses increased $10.9 million, or five percent, reflecting general increases in labor and maintenance costs along with incremental operating expenses associated with providing service to a steadily growing customer base.

Depreciation expense and general taxes increased a net $4.6 million, or four percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased $174 million, or nine percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate new customers being added to the system.

Net interest deductions increased $5.4 million, or nine percent, resulting primarily from additional borrowings to finance construction expenditures and higher interest rates on variable-rate debt.

Other income (expense) in the current period includes a $2 million expense recorded December 1999 in connection with the California Public Utilities Commission approval of a settlement agreement with the town of Truckee. Also included is a $1.9 million pretax charge to reflect a June 2000 settlement with the PUCN related to disallowed gas costs from the 1996/1997 winter heating season. The prior period includes $4 million ($3.2 million after tax) of costs related to the now terminated merger with ONEOK, Inc., partially offset by a $1.6 million litigation-related recovery by a nonconstruction, nonutility subsidiary.

Utility income tax expense, exclusive of changes in pretax income, decreased $4.6 million between periods. The decrease was attributed to the favorable resolution of certain federal and state income tax issues during the current period, and the recognition of income tax liabilities for unrelated tax issues in the prior period.

## RATES AND REGULATORY PROCEEDINGS

### Arizona General Rate Case

In May 2000, the Company filed a general rate application with the Arizona Corporation Commission (ACC) seeking approval to increase revenues by $37.1 million, or nine percent, annually for its Arizona rate jurisdiction. The Company is seeking rate relief for increased operating costs, changes in financing costs, declining average residential useage, and improvements and additions to the distribution system. The Company has proposed shifting more day-to-day operating costs to the basic service charge to ease the impact of weather on monthly bills. Hearings are scheduled to begin in the first quarter of 2001. Arizona general rates were last increased in September 1997.

### Nevada PGA Filing

In June 2000, the Company submitted an annual purchased gas adjustment (PGA) filing in compliance with the provisions of its Nevada Gas Tariff. If approved as filed, residential gas bills would increase by approximately nine percent. The Company is also requesting a change in the frequency of future PGA filings. A monthly PGA mechanism, designed to reduce the impact of large price fluctuations, would replace the current annual mechanism. Customer bills would reflect monthly price variations as a direct result of the most recent natural gas prices. A decision from the PUCN is expected in November 2000. PGA changes impact cash flows but have no direct impact on profit margin.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." As it applies to the Company, SFAS No. 137 postpones the effective date of SFAS No. 133 to January 2001. In June 2000, the FASB issued SFAS No. 138 "Accounting for Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133." Of significance to the Company is the expansion of the normal purchases and normal sales exclusion provisions of SFAS No. 133.

The Company does not currently utilize stand-alone derivatives for speculative purposes or for hedging and does not have foreign currency exposure. However, the Company has fixed-price gas supply contracts, which, absent the expansion of the normal purchases and normal sales exclusion, may have been considered derivatives under the requirements of SFAS No. 133. The Company will continue to review the applicability of SFAS No. 133 accounting requirements to these and other contracts.

## FORWARD-LOOKING STATEMENTS

This report contains 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, natural gas prices, the effects of regulation/deregulation, the timing and amount of rate relief, changes in capital requirements and funding, resolution of the pending litigation, acquisitions and competition.

## PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Litigation is pending in the United States District Court for the Southern District of California (99 cv 1004-L (CGA)), the United States District Court of Arizona (Civ '99 1294 PHX ROS and Civ '00 0119 PHX VAM) and the United States District Court for the Northern District of Oklahoma (Case No. 00cv063 KE) relating to the now terminated acquisition of the Company by ONEOK, Inc. and the Company's rejection of competing offers from Southern Union Company. This litigation is described in Item 3, "Legal Proceedings" in the 1999 Form 10-K filed with the Securities and Exchange Commission. There have been no new material developments related to these proceedings.

Other Proceedings

The Company has been named as defendant in various other legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that none of this litigation will have a material adverse impact on the Company's financial position or results of operations.

ITEMS 2-3. NONE

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders was held on May 11, 2000. Matters voted upon and the results of the voting were as follows:

(1) Cumulative voting became effective for all shareholders when the intent to cumulatively vote shares was announced at the Annual Meeting of Shareholders. Each shareholder/proxy was entitled to give one nominee for director a number of votes equal to the number of directors to be elected (in this case 11) multiplied by the number of votes to which the shareholder's shares were normally entitled. A shareholder/proxy could distribute their votes on the same principle among as many of the nominees for director as the shareholder/proxy desired. The 11 nominees that received the highest allocation of affirmative votes were elected. Withholding votes or voting against a nominee had no legal effect. Shares were accumulated and allocated among the nominees in sufficient number to elect the following as directors.

| | |
|---|---|
| George C. Biehl | 25,421,438 |
| Manuel J. Cortez | 25,334,287 |
| Lloyd T. Dyer | 25,387,770 |
| Mark M. Feldman | 28,002,246 |
| Thomas Y. Hartley | 25,395,455 |
| Michael B. Jager | 25,414,562 |
| Leonard R. Judd | 25,421,759 |
| James J. Kropid | 25,362,949 |
| Michael O. Maffie | 25,309,360 |
| Carolyn M. Sparks | 25,344,482 |
| Terrance L. Wright | 25,410,432 |

The remaining accumulated shares were allocated to the other nominees, Robert S. Sundt, Mary McCarthy, and Michael J. Melarkey.

(2) The proposal to ratify the selection of Arthur Andersen LLP as independent public accountants for the Company was approved. Shareholders voted 23,146,802 shares in favor, 588,279 against, and 647,423 abstentions.

ITEM 5. OTHER INFORMATION

In July 2000, the Company, the National Labor Relations Board (NLRB) and the International Brotherhood of Electrical Workers (IBEW) entered into an NLRB Settlement Agreement whereby the Company recognizes the IBEW as the bargaining agent for certain employees in the Central Arizona division. As part of the settlement, the union will drop all of its legal actions against the Company and the Company will withdraw its complaint at the D.C. Circuit Court of Appeals challenging the legality of the union vote.

In July 2000, David H. Gunning, 58, was elected as a director of the Company, succeeding Lloyd T. Dyer, who retired after serving as a director for the last 22 years. Mr. Gunning is the principal in Encinitos Ventures, and was president and chief executive officer of Capitol American Financial Corporation. He serves as a director of The Lincoln Electric Company, Roulston & Co., and Development Alternatives, Inc. Mr. Gunning received his undergraduate degree from Cornell University and his juris doctorate from Harvard University.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report on Form 10-Q:

Exhibit 12.1 - Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
Exhibit 27.1 - Financial Data Schedule (filed electronically only).

(b) Reports on Form 8-K

The Company filed a Form 8-K, dated August 3, 2000, reporting summary financial information for the quarter, year to date and twelve months ended June 30, 2000.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Southwest Gas Corporation
--------------------------------------------------
(Registrant)

Date: August 11, 2000

/s/ Edward A. Janov
--------------------------------------------------
Edward A. Janov
Vice President/Controller/Chief Accounting Officer

EXHIBIT 12.1

SOUTHWEST GAS CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Thousands of dollars)

| | For the Twelve Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, | December 31, | | | | |
| Continuing operations | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
| 1. Fixed charges: | | | | | | |
| A) Interest expense | $ 67,053 | $ 63,110 | $ 63,416 | $ 63,247 | $ 54,674 | $ 52,844 |
| B) Amortization | 1,477 | 1,366 | 1,243 | 1,164 | 1,494 | 1,569 |
| C) Interest portion of rentals | 8,325 | 8,217 | 7,531 | 6,973 | 6,629 | 4,435 |
| D) Preferred securities distributions | 5,475 | 5,475 | 5,475 | 5,475 | 5,475 | 913 |
| Total fixed charges | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 59,761 |
| 2. Earnings (as defined): | | | | | | |
| E) Pretax income from continuing operations | $ 41,144 | $ 60,955 | $ 83,951 | $ 21,328 | $ 10,448 | $ 3,493 |
| Fixed Charges (1. above) | 82,330 | 78,168 | 77,665 | 76,859 | 68,272 | 59,761 |
| Total earnings as defined | $ 123,474 | $ 139,123 | $ 161,616 | $ 98,187 | $ 78,720 | $ 63,254 |
| | 1.50 | 1.78 | 2.08 | 1.28 | 1.15 | 1.06 |

| | For the Twelve Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, | December 31, | | | | |
| Adjusted for interest allocated to discontinued operations | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
| 1. Fixed charges: | | | | | | |
| A) Interest expense | $ 67,053 | $ 63,110 | $ 63,416 | $ 63,247 | $ 54,674 | $ 52,844 |
| B) Amortization | 1,477 | 1,366 | 1,243 | 1,164 | 1,494 | 1,569 |
| C) Interest portion of rentals | 8,325 | 8,217 | 7,531 | 6,973 | 6,629 | 4,435 |
| D) Preferred securities distributions | 5,475 | 5,475 | 5,475 | 5,475 | 5,475 | 913 |
| E) Allocated interest [1] | - | - | - | - | - | 9,636 |
| Total fixed charges | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 69,397 |
| 2. Earnings (as defined): | | | | | | |
| F) Pretax income from continuing operations | $ 41,144 | $ 60,955 | $ 83,951 | $ 21,328 | $ 10,448 | $ 3,493 |
| Fixed Charges (1. above) | 82,330 | 78,168 | 77,665 | 76,859 | 68,272 | 69,397 |
| Total earnings as defined | $ 123,474 | $ 139,123 | $ 161,616 | $ 98,187 | $ 78,720 | $ 72,890 |
| 3. Ratio of earnings to fixed charges | 1.50 | 1.78 | 2.08 | 1.28 | 1.15 | 1.05 |

[1] Represents allocated interest through the period ended December 31, 1995. Carrying costs for the period subsequent to year end through the disposition of the discontinued operations were accrued and recorded as disposal costs.

EXHIBIT 12.1

SOUTHWEST GAS CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS
(Thousands of dollars)

| | For the Twelve Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, | December 31, | | | | |
| Continuing operations | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
| 1. Combined fixed charges: | | | | | | |
| A) Total fixed charges | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 59,761 |
| B) Preferred dividends [1] | - | - | - | - | - | 404 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total fixed charges and preferred dividends | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 60,165 |
| 2. Earnings | $ 123,474 | $ 139,123 | $ 161,616 | $ 98,187 | $ 78,720 | $ 63,254 |
| 3. Ratio of earnings to fixed charges and preferred dividends | 1.50 | 1.78 | 2.08 | 1.28 | 1.15 | 1.05 |

| Adjusted for interest allocated to discontinued operations | For the Twelve Months Ended June 30, 2000 | December 31, 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| 1. Combined fixed charges: | | | | | | |
| A) Total fixed charges | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 69,397 |
| B) Preferred dividends [1] | - | - | - | - | - | 404 |
| Total fixed charges and preferred dividends | $ 82,330 | $ 78,168 | $ 77,665 | $ 76,859 | $ 68,272 | $ 69,801 |
| 2. Earnings | $ 123,474 | $ 139,123 | $ 161,616 | $ 98,187 | $ 78,720 | $ 72,890 |
| 3. Ratio of earnings to fixed charges and preferred dividends | 1.50 | 1.78 | 2.08 | 1.28 | 1.15 | 1.04 |

[1] Preferred and preference dividends have been adjusted to represent the pretax earnings necessary to cover such dividend requirements.

UT

This schedule contains summary financial information extracted from Southwest Gas Corporation's Form 10-Q for the quarter ended June 30, 2000 and is qualified in its entirety by reference to such financial statements.

1,000

6-MOS
DEC-31-2000
JUN-30-2000
PER-BOOK
1,626,123
92,559
133,654
0
46,880
1,899,216
32,988
446,613
36,144
515,745
0
0
860,399
39,075
0
0
6,802
0
0
0
477,195
1,899,216
494,449
6,802
435,247
435,247
59,202
(3,194)
56,008
(33,737)
15,469
0
15,469
12,796
0
122,857
0.50
0.49

Includes: trust originated preferred securities of $60,000, current liabilities, net of current long-term debt maturities and short-term debt, of $180,970 and deferred income taxes and other credits of $236,225

Includes distributions related to trust originated preferred securities of $2,738