

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 September 30, 2003

Commission File Number 1-7850

SOUTHWEST GAS CORPORATION

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

88-0085720
(I.R.S. Employer
Identification No.)

5241 Spring Mountain Road
Post Office Box 98510
Las Vegas, Nevada
(Address of principal executive offices)

89193-8510
(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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes 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, 34,035,635 shares as of November 3, 2003.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)

	SEPTEMBER 30, 2003	DECEMBER 31, 2002
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ASSETS

(Unaudited)

Utility plant:

Gas plant	\$ 2,957,206	\$ 2,779,960
Less: accumulated depreciation	(941,068)	(869,908)
Acquisition adjustments, net	2,579	2,714
Construction work in progress	26,690	66,693
	<u>2,045,407</u>	<u>1,979,459</u>
Net utility plant		
	<u>87,578</u>	<u>87,391</u>
Other property and investments		
Current assets:		
Cash and cash equivalents	6,788	19,392
Accounts receivable, net of allowances	72,750	130,695
Accrued utility revenue	28,000	65,073
Income taxes receivable, net	6,396	--
Deferred income taxes	7,982	3,084
Prepays and other current assets	46,413	43,524
	<u>168,329</u>	<u>261,768</u>
Total current assets		
Deferred charges and other assets	60,171	49,310
	<u>60,171</u>	<u>49,310</u>
Total assets	\$ 2,361,485	\$ 2,377,928

CAPITALIZATION AND LIABILITIES

Capitalization:		
Common stock, \$1 par (authorized - 45,000,000 shares; issued and outstanding - 33,943,918 and 33,289,015 shares)	\$ 35,574	\$ 34,919
Additional paid-in capital	503,194	487,788
Retained earnings	56,657	73,460
	<u>595,425</u>	<u>596,167</u>
Total equity		
Mandatorily redeemable preferred trust securities	--	60,000
Subordinated debentures due to Southwest Gas Capital II (Note 3)	100,000	--
Long-term debt, less current maturities	1,104,091	1,092,148
	<u>1,799,516</u>	<u>1,748,315</u>
Total capitalization		
Current liabilities:		
Current maturities of long-term debt	7,067	8,705
Short-term debt	--	53,000
Accounts payable	54,117	88,309
Customer deposits	41,895	34,313
Income taxes payable, net	--	10,969
Accrued general taxes	34,783	28,400
Accrued interest	19,141	21,137
Deferred purchased gas costs	22,430	26,718
Other current liabilities	39,214	41,630
	<u>218,647</u>	<u>313,181</u>
Total current liabilities		
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits	250,561	229,358
Other deferred credits	92,761	87,074
	<u>343,322</u>	<u>316,432</u>
Total deferred income taxes and other credits		
Total capitalization and liabilities	\$ 2,361,485	\$ 2,377,928

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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002	2003	2002
Operating revenues:						
Gas operating revenues	\$ 167,827	\$ 167,187	\$ 733,192	\$ 834,817	\$ 1,014,275	\$ 1,165,437
Construction revenues	52,335	56,676	146,107	149,670	201,446	203,186
	<u>220,162</u>	<u>223,863</u>	<u>879,299</u>	<u>984,487</u>	<u>1,215,721</u>	<u>1,368,623</u>

Operating expenses:						
Net cost of gas sold	72,398	70,060	358,908	449,345	472,942	618,610
Operations and maintenance	66,012	65,924	196,502	196,259	264,431	261,558
Depreciation and amortization	34,345	33,015	101,183	96,052	135,341	126,709
Taxes other than income taxes	9,075	8,673	27,530	26,482	35,613	34,253
Construction expenses	46,617	49,528	129,358	132,325	179,101	180,106
Total operating expenses	228,447	227,200	813,481	900,463	1,087,428	1,221,236
Operating income (loss)	(8,285)	(3,337)	65,818	84,024	128,293	147,387
Other income and (expenses):						
Net interest deductions	(18,935)	(19,784)	(58,709)	(59,710)	(78,970)	(79,661)
Net interest deductions on subordinated debentures	(750)	--	(750)	--	(750)	--
Preferred securities distributions	(1,442)	(1,368)	(4,180)	(4,106)	(5,549)	(5,475)
Other income (deductions)	978	(2,629)	2,575	(10,684)	17,588	(6,545)
Total other income and (expenses)	(20,149)	(23,781)	(61,064)	(74,500)	(67,681)	(91,681)
Income (loss) before income taxes	(28,434)	(27,118)	4,754	9,524	60,612	55,706
Income tax expense (benefit)	(11,027)	(10,982)	726	3,374	18,769	18,581
Net income (loss)	\$ (17,407)	\$ (16,136)	\$ 4,028	\$ 6,150	\$ 41,843	\$ 37,125
Basic earnings (loss) per share	\$ (0.51)	\$ (0.49)	\$ 0.12	\$ 0.19	\$ 1.25	\$ 1.13
Diluted earnings (loss) per share	\$ (0.51)	\$ (0.49)	\$ 0.12	\$ 0.19	\$ 1.24	\$ 1.12
Dividends paid per share	\$ 0.205	\$ 0.205	\$ 0.615	\$ 0.615	\$ 0.82	\$ 0.82
Average number of common shares outstanding	33,852	33,065	33,653	32,862	33,545	32,752
Average shares outstanding (assuming dilution)	--	--	33,911	33,132	33,816	33,028

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)

(Unaudited)

	NINE MONTHS ENDED SEPTEMBER 30,		TWELVE MONTHS ENDED SEPTEMBER 30,	
	2003	2002	2003	2002
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	\$ 4,028	\$ 6,150	\$ 41,843	\$ 37,125
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	101,183	96,052	135,341	126,709
Deferred income taxes	16,305	(497)	1,118	1,434
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	57,945	69,412	13,220	17,963
Accrued utility revenue	37,073	34,701	1,072	(3,099)
Deferred purchased gas costs	(4,288)	112,029	(6,098)	140,860
Accounts payable	(34,192)	(57,527)	2,477	(17,725)
Accrued taxes	(10,982)	2,995	20,020	(5,235)
Other current assets and liabilities	85	(5,755)	10,603	80
Other	265	(7,285)	(3,975)	(5,422)
Net cash provided by operating activities	167,422	250,275	215,621	292,690
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(163,899)	(197,582)	(249,168)	(271,463)
Other	3,685	21,284	6,386	25,879
Net cash used in investing activities	(160,214)	(176,298)	(242,782)	(245,584)
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	13,675	14,774	17,075	17,916
Issuance of subordinated debentures, net	96,393	--	96,393	--
Retirement of preferred trust securities	(60,000)	--	(60,000)	--
Dividends paid	(20,698)	(20,200)	(27,507)	(26,844)
Issuance of long-term debt, net	161,208	208,873	158,496	204,895
Retirement of long-term debt, net	(137,576)	(207,673)	(139,931)	(212,392)
Temporary changes in long-term debt	(19,814)	--	(19,814)	--
Change in short-term debt	(53,000)	(93,000)	--	(36,000)

Net cash provided by (used in) financing activities	(19,812)	(97,226)	24,712	(52,425)
Change in cash and cash equivalents	(12,604)	(23,249)	(2,449)	(5,319)
Cash at beginning of period	19,392	32,486	9,237	14,556
Cash at end of period	\$ 6,788	\$ 9,237	\$ 6,788	\$ 9,237
Supplemental information:				
Interest paid, net of amounts capitalized	\$ 59,460	\$ 58,702	\$ 77,625	\$ 75,325
Income taxes paid (received), net	(956)	1,447	(606)	17,948

The accompanying notes are an integral part of these statements.

4

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. The public utility rates, practices, facilities, and service territories of Southwest 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. Natural gas purchases and the timing of related recoveries can materially impact liquidity. 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 (SEC). 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 consolidated financial statements and the notes thereto included in the 2002 Annual Report to Shareholders, which is incorporated by reference into the 2002 Form 10-K, and the first and second quarter 2003 Form 10-Qs.

Reclassifications. Certain reclassifications have been made to the prior year's financial information to present it on a basis comparable with the current year's presentation.

Intercompany Transactions. The construction services segment recognizes revenues generated from contracts with Southwest (see Note 2 below). Accounts receivable for these services were \$6.1 million at September 30, 2003 and \$6 million at December 31, 2002. The accounts receivable balance, revenues, and associated profits are included in the consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation."

Asset Retirement Obligations. In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 establishes accounting standards for recognition and measurement of liabilities for asset retirement obligations and the associated asset retirement costs. The Company adopted the provisions of SFAS No. 143 on January 1, 2003. The adoption did not have a material impact on the financial position or results of operations of the Company.

In accordance with approved regulatory practices, Southwest accrues for future removal costs associated with utility plant retirements as a component of depreciation expense. At September 30, 2003, an estimated \$294 million of accumulated removal costs were included in accumulated depreciation.

Stock-Based Compensation. The Company has two stock-based compensation plans, which are described more fully in **Note 9 — Employee Benefits** in the 2002 Annual Report to Shareholders. These plans are accounted for in accordance with Accounting Principles Board (APB) Opinion No. 25 "Accounting for Stock Issued to Employees" and related interpretations. In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation –

5

Transition and Disclosure – an Amendment of FASB Statement No. 123," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The Company has no current plans to adopt the fair value recognition provision of SFAS No. 123, "Accounting for Stock-Based Compensation." The Company adopted the disclosure requirements of SFAS No. 148 effective December 2002. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS No. 123 to its stock-based employee compensation (thousands of dollars, except per share amounts):

	Period Ended September 30,		
	Three Months	Nine Months	Twelve Months

	2003	2002	2003	2002	2003	2002
Net income (loss), as reported	\$ (17,407)	\$ (16,136)	\$ 4,028	\$ 6,150	\$ 41,843	\$ 37,125
Add:						
Stock-based employee compensation expense included in reported net income (loss), net of related tax benefits	442	446	1,354	1,338	1,799	1,807
Deduct:						
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax benefits	(560)	(514)	(1,722)	(1,512)	(2,234)	(2,082)
Pro forma net income (loss)	\$ (17,525)	\$ (16,204)	\$ 3,660	\$ 5,976	\$ 41,408	\$ 36,850
Earnings (loss) per share:						
Basic - as reported	\$ (0.51)	\$ (0.49)	\$ 0.12	\$ 0.19	\$ 1.25	\$ 1.13
Basic - pro forma	(0.52)	(0.49)	0.11	0.18	1.23	1.13
Diluted - as reported	(0.51)	(0.49)	0.12	0.19	1.24	1.12
Diluted - pro forma	(0.52)	(0.49)	0.11	0.18	1.22	1.12

Recently Issued Accounting Pronouncements. In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51" (FIN 46) effective July 2003. See Note 3 below for additional information.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after June 30, 2003 with exceptions for certain types of securities. SFAS No. 149 clarifies the definition and characteristics of a derivative and amends other existing pronouncements for consistency. The Company does not currently utilize stand-alone derivative instruments for speculative purposes or for hedging and does not have foreign currency exposure. None of the Company's long-term financial instruments or other contracts are derivatives, or contain embedded derivatives with significant mark-to-market value. The adoption of the standard did not have a material impact on the financial position or results of operations of the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 addresses the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires those instruments be classified as liabilities in statements of financial position. The adoption of the standard did not have a material impact on the financial position or results of operations of the Company.

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
Nine months ended September 30, 2003			
Revenues from external customers	\$ 733,192	\$ 103,466	\$ 836,658
Intersegment revenues	--	42,641	42,641
Total	\$ 733,192	\$ 146,107	\$ 879,299
Segment net income	\$ 991	\$ 3,037	\$ 4,028
Nine months ended September 30, 2002			
Revenues from external customers	\$ 834,817	\$ 98,679	\$ 933,496
Intersegment revenues	--	50,991	50,991
Total	\$ 834,817	\$ 149,670	\$ 984,487
Segment net income	\$ 2,554	\$ 3,596	\$ 6,150

Note 3 – Southwest Gas Capital II

In June 2003, the Company created Southwest Gas Capital II (Trust II), a wholly owned subsidiary, as a financing trust for the sole purpose of issuing preferred trust securities for the benefit of the Company. In August 2003, Trust II publicly issued \$100 million of 7.70% Preferred Trust Securities (Preferred Trust Securities). In connection with the Trust II issuance of the Preferred Trust Securities and the related purchase by the Company for \$3.1 million of all of the Trust II common securities (Common Securities), the Company issued \$103.1 million principal amount of its 7.70% Junior Subordinated Debentures,

due 2043 (Subordinated Debentures) to Trust II. The sole assets of Trust II are and will be the Subordinated Debentures. The interest and other payment dates on the Subordinated Debentures correspond to the distribution and other payment dates on the Preferred Trust Securities and Common Securities. Under certain circumstances, the Subordinated Debentures may be distributed to the holders of the Preferred Trust Securities and holders of the Common Securities in liquidation of Trust II. The Subordinated Debentures are redeemable at the option of the Company after August 2008 at a redemption price of \$25 per Subordinated Debenture plus accrued and unpaid interest. In the event that the Subordinated Debentures are repaid, the Preferred Trust Securities and the Common Securities will be redeemed on a pro rata basis at \$25 (par value) per Preferred Trust Security and Common Security plus accumulated and unpaid distributions. Company obligations under the Subordinated Debentures, the Trust Agreement (the agreement under which Trust II was formed), the guarantee of payment of certain distributions, redemption payments and liquidation payments with respect to the Preferred Trust Securities to the extent Trust II has funds available therefore and the indenture governing the Subordinated Debentures, including the Company agreement pursuant to such indenture to pay all fees and expenses of Trust II, other than with respect to the Preferred Trust Securities and Common Securities, taken together, constitute a full and unconditional guarantee on a subordinated basis by the Company of payments due on the Preferred Trust Securities. As of September 30, 2003, 4.1 million Preferred Trust Securities were outstanding.

The Company has the right to defer payments of interest on the Subordinated Debentures by extending the interest payment period at any time for up to 20 consecutive quarters (each, an Extension Period). If interest payments are so deferred, distributions to Preferred Trust Securities holders will also be deferred. During such Extension Period, distributions will continue to accrue with interest thereon (to the extent permitted by applicable law) at an annual rate of 7.70% per annum compounded quarterly. There could be multiple Extension Periods of varying lengths throughout the term of the Subordinated Debentures. If the Company exercises the right to extend an interest payment period, the Company shall not during such Extension Period (i) declare or pay dividends on, or make a distribution with respect to, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, or (ii) make any payment of interest, principal, or premium, if any, on or repay, repurchase, or redeem any debt securities issued by the

7

Company that rank equal with or junior to the Subordinated Debentures; provided, however, that restriction (i) above does not apply to any stock dividends paid by the Company where the dividend stock is the same as that on which the dividend is being paid. The Company has no present intention of exercising its right to extend the interest payment period on the Subordinated Debentures.

A portion of the net proceeds from the issuance of the Preferred Trust Securities was used to complete the redemption of the 9.125% Trust Originated Preferred Securities effective September 2003 at a redemption price of \$25 per Preferred Security, totaling \$60 million plus accrued interest of \$1.3 million. The 9.125% Preferred Securities were originally issued in October 1995 by Southwest Gas Capital I, a consolidated wholly owned subsidiary of the Company.

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51" (FIN 46) effective July 2003. This Interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. Trust II, the issuer of the Preferred Trust Securities, meets the definition of a variable interest entity.

Although the Company owns 100 percent of the common voting securities of Trust II, under current interpretation of FIN 46, the Company is not considered the primary beneficiary of this trust and therefore Trust II is not consolidated. This results in the Company reflecting a liability to Trust II, which under the prior accounting treatment would have been eliminated in consolidation, instead of to the holders of the Preferred Trust Securities. As a result, payments and amortizations associated with the liability are classified on the consolidated statements of income as Net interest deductions on subordinated debentures. The \$103.1 million Subordinated Debentures are shown on the balance sheet of the Company net of the \$3.1 million Common Securities as Subordinated debentures due to Southwest Gas Capital II.

The effective date for variable interest entities in existence before February 1, 2003 was delayed until the end of the first interim or annual period ending after December 15, 2003, thus the consolidation of Southwest Gas Capital I is not currently affected by FIN 46.

8

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 central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor and transporter of natural gas in Nevada, serving 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 and the high desert and mountain areas in San Bernardino County.

Southwest purchases, transports, and distributes natural gas to approximately 1,491,000 residential, commercial, industrial, and other customers, of which 55 percent are located in Arizona, 36 percent are in Nevada, and 9 percent are in California. During the twelve months ended September 30, 2003, Southwest earned 56 percent of operating margin in Arizona, 36 percent in Nevada, and 8 percent in California. During this same period, Southwest earned 84 percent of operating margin from residential and small commercial customers, 6 percent from other sales customers, and 10 percent from transportation customers. These general patterns 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 customer growth. Financing this growth has required large amounts of capital to pay for new transmission and distribution plant, to keep up with consumer demand. During the twelve-month period ended September 30, 2003, capital expenditures for the natural gas operations segment were \$236 million. Approximately 72 percent of these 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) provided \$164 million of the required capital resources pertaining to these construction expenditures. The remainder was provided from external financing activities.

Asset Purchase

In October 2003, the Company completed the purchase of Black Mountain Gas Company (BMG), a gas utility serving portions of Carefree, North Scottsdale, North Phoenix, Cave Creek, and Page, Arizona. The Company paid approximately \$24 million for BMG. The acquisition was financed using existing credit facilities. BMG has approximately 8,600 natural gas customers in a rapidly growing area north of Phoenix and about 2,500 propane customers. The Company plans to sell the propane operations as it does not intend to remain in the propane business. BMG operations will be integrated into the Central Arizona Division of Southwest.

2003 Construction Expenditures and Financing

In March 2002, the Job Creation and Worker Assistance Act of 2002 (2002 Act) was signed into law. The 2002 Act provided a three-year, 30 percent bonus depreciation deduction for businesses. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (2003 Act), signed into law in May 2003, provides for enhanced and extended bonus tax depreciation. The 2003 Act increases the bonus depreciation rate to 50 percent for qualifying property placed in service after May 2003 and, generally, before January 2005. Southwest estimates the 2002 and 2003 Acts bonus depreciation deductions will reduce federal income taxes by approximately \$65 million over the two-year period ending December 31, 2004.

Southwest estimates construction expenditures during the three-year period ending December 31, 2005 will be approximately \$675 million. Of this amount, \$240 million are expected to be incurred in 2003. During the three-year period, cash flow from operating activities (net of dividends) is estimated to fund approximately 70-75 percent of the gas operations total construction expenditures, including the impacts of the 2002 and 2003 Acts. The Company expects to raise \$55 million to \$60 million from its Dividend Reinvestment and Stock Purchase Plan (DRSPP). The remaining cash requirements are expected to be provided by other 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, growth levels in Southwest service areas, and earnings. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

In March 2003, the Company issued several series of Clark County, Nevada Industrial Development Revenue Bonds (IDRBs) totaling \$165 million, due 2038. Of this total, variable-rate IDRBs (\$50 million 2003 Series A and \$50 million 2003 Series B) were used to refinance the \$100 million 7.50% 1992 Series B, fixed-rate IDRB due 2032. At September 30, 2003, the effective interest rate including all fees on the new Series A and Series B IDRBs was 2.61%. The \$30 million 7.30% 1992 Series A, fixed-rate IDRB due 2027 was refinanced with a \$30 million 5.45% 2003 Series C fixed-rate IDRB. An incremental \$35 million (\$20 million 3.35% 2003 Series D and \$15 million 5.80% Series E fixed-rate IDRBs) was used to finance construction expenditures in southern Nevada during the first and second quarters of 2003. The Series C and Series E were set with an initial interest rate period of 10 years, while the Series D has an initial interest rate period of 18 months. After the initial interest rate periods, the Series C, D, and E interest rates will be reset at then prevailing market rates for periods not to exceed the maturity date of March 1, 2038.

The 2003 Series A and Series B IDRBs are supported by two letters of credit totaling \$101.7 million, which expire in March 2006. These IDRBs are set at weekly rates and the letters of credit support the payment of principal or a portion of the purchase price corresponding to the principal of the IDRBs (while in the weekly rate mode).

In October 2003, a \$55.3 million letter of credit, which supports the City of Big Bear \$50 million tax-exempt Series A IDRBs, due 2028, was renewed for a three-year period expiring in October 2006.

In June 2003, the Company filed on Form S-3 a registration statement for an incremental \$100 million of various securities with the SEC and to revise \$200 million of securities previously registered to provide additional flexibility in the types of securities available for issuance. After the issuance of the preferred securities described in the following paragraph, the Company has a total of \$200 million in securities registered with the SEC which are available for future financing needs.

In August 2003, Southwest Gas Capital II issued \$100 million of 7.70% Preferred Trust Securities. A portion of the net proceeds from the issuance of the Preferred Trust Securities was used to complete the redemption of the 9.125% Trust Originated Preferred Securities effective September 2003 at a redemption price of \$25 per Preferred Security, totaling \$60 million plus accrued interest of \$1.3 million. For more information, including the accounting treatment, see **Note 3 – Southwest Gas Capital II**.

Liquidity

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. Several general factors that could significantly affect capital resources and liquidity in future years include inflation, growth in the economy, changes in income tax laws, changes in the ratemaking policies of regulatory commissions, interest rates, the level of natural gas prices, and the level of Company earnings.

The rate schedules in all of the service territories of Southwest contain purchased gas adjustment (PGA) clauses which permit adjustments to rates as the cost of purchased gas changes. The PGA mechanism allows Southwest to change the gas cost component of the rates charged to its customers to reflect increases or decreases in the price expected to be paid

to its suppliers and companies providing interstate pipeline transportation service. On an interim basis, Southwest generally defers over or under collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At September 30, 2003, the combined balances in PGA accounts totaled an over-collection of \$22 million. At December 31, 2002, the combined balances in PGA accounts totaled an over-collection of \$27 million. See **PGA Filings** for more information.

The price of natural gas has increased compared to the prior year. The primary reasons for the price increase are a national demand for natural gas and a perceived tightened supply of gas for the upcoming winter. Southwest customers have benefited from the fixed prices associated with term contracts in place during 2003. However, these contracts are generally of short duration (less than one year) and cover about half of Southwest's supply needs. Under an ongoing price volatility mitigation program, new contracts to replace those that are expiring have been purchased to ensure stable prices. However, these supplies are at higher prices compared to the previous year's fixed-price purchases. Remaining needs will be covered with the purchase of natural gas on the spot market and are subject to market fluctuations. Market priced contracts to supply gas needs beyond the base fixed-price contracts negotiated for the upcoming winter months will generally have higher priced terms than the prior year. Southwest continues to pursue all available sources to maintain the balance between a low cost and reliable supply of natural gas for its customers. All incremental costs are expected to be included in the PGA mechanism for recovery from customers in each rate jurisdiction. As a result, the PGA account balances may shift from an over-collected to an under-collected status.

Southwest utilizes short-term borrowings to temporarily finance under-collected PGA balances. Southwest has a \$250 million credit facility consisting of a \$125 million three-year facility and a \$125 million 364-day facility. Of the total \$250 million facility, \$150 million is designated as short-term debt which the Company believes is adequate to meet anticipated needs. All \$150 million was available at September 30, 2003. Effective May 2003, the Company renewed the \$125 million 364-day facility for an additional year with no significant changes in rates or terms.

Results of Consolidated Operations

	Period Ended September 30,					
	Three Months		Nine Months		Twelve Months	
	2003	2002	2003	2002	2003	2002
<u>Contribution to net income (loss)</u> (Thousands of dollars)						
Natural gas operations	\$ (18,590)	\$ (18,103)	\$ 991	\$ 2,554	\$ 37,665	\$ 32,458
Construction services	1,183	1,967	3,037	3,596	4,178	4,667
Net income (loss)	\$ (17,407)	\$ (16,136)	\$ 4,028	\$ 6,150	\$ 41,843	\$ 37,125
<u>Earnings (loss) per share</u>						
Natural gas operations	\$ (0.55)	\$ (0.55)	\$ 0.03	\$ 0.08	\$ 1.12	\$ 0.99
Construction services	0.04	0.06	0.09	0.11	0.13	0.14
Consolidated	\$ (0.51)	\$ (0.49)	\$ 0.12	\$ 0.19	\$ 1.25	\$ 1.13

See separate discussion at **Results of Natural Gas Operations**.

Construction services contribution to net income and earnings per share for the three, nine, and twelve months ended September 30, 2003 decreased when compared to the same periods ended September 30, 2002. The unfavorable settlement of a \$1.3 million insurance claim during the third quarter of 2003 was the primary reason for the declines in each period.

The following table sets forth the ratios of earnings to fixed charges for the Company (because of the seasonal nature of the Company's business, these ratios are computed on a twelve-month basis):

	For the Twelve Months Ended	
	September 30, 2003	December 31, 2002
Ratio of earnings to fixed charges	1.65	1.68

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 September 30,	
	2003	2002
	(Thousands of dollars)	
Gas operating revenues	\$ 167,827	\$ 167,187
Net cost of gas sold	72,398	70,060
Operating margin	95,429	97,127
Operations and maintenance expense	66,012	65,924
Depreciation and amortization	30,517	29,240
Taxes other than income taxes	9,075	8,673
Operating income (loss)	(10,175)	(6,710)
Other (income) expense	(658)	2,985
Net interest deductions	18,779	19,379
Net interest deductions on subordinated debentures	750	--
Preferred securities distributions	1,442	1,368
Income (loss) before income taxes	(30,488)	(30,442)
Income tax expense (benefit)	(11,898)	(12,339)
Contribution to consolidated net income (loss)	\$ (18,590)	\$ (18,103)

Contribution from natural gas operations decreased \$487,000 in the third quarter of 2003 compared to the same period a year ago. The decrease was principally the result of lower operating margin and increased operating costs, partially offset by improved other (income) expense.

Operating margin decreased \$1.7 million, or two percent, in the third quarter of 2003 compared to the third quarter of 2002. Customer growth contributed \$2 million of incremental margin during the period. However, this was offset by a number of factors including variations in accrued utility revenues, gas procurement, transportation, and gas storage services. Margin from these services can vary from period to period. During the last twelve months Southwest has added nearly 64,000 customers, an increase of four percent.

Operations and maintenance expense increased less than one percent between quarters. The impacts of general cost increases and costs associated with the continued expansion and upgrading of the gas system to accommodate customer growth were mitigated by cost-curbing measures implemented during the past year. Over the longer term, operations and maintenance expenses are expected to trend upward (corresponding to the customer growth rate and inflation).

Depreciation expense and general taxes increased \$1.7 million, or four percent, as a result of construction activities. Average gas plant in service increased \$237 million, or nine percent, as compared to the third quarter of 2002. The increase reflects ongoing capital expenditures for the upgrading of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Other (income) expense improved \$3.6 million between periods primarily due to non-recurring costs recognized in 2002. In the third quarter of 2002, costs associated with merger litigation and a regulatory disallowance in California totaled \$2.1 million. In addition, returns from long-term investments improved between quarters.

Net financing costs increased \$224,000, or one percent, between periods. Costs associated with incremental financings were partially offset by lower interest rates on variable-rate and refinanced debt and preferred securities.

Nine-Month Analysis

	Nine Months Ended September 30,	
	2003	2002
	(Thousands of dollars)	
Gas operating revenues	\$ 733,192	\$ 834,817

Net cost of gas sold	358,908	449,345
Operating margin	374,284	385,472
Operations and maintenance expense	196,502	196,259
Depreciation and amortization	89,372	84,980
Taxes other than income taxes	27,530	26,482
Operating income	60,880	77,751
Other (income) expense	(1,509)	11,727
Net interest deductions	57,991	58,547
Net interest deductions on subordinated debentures	750	--
Preferred securities distributions	4,180	4,106
Income (loss) before income taxes	(532)	3,371
Income tax expense (benefit)	(1,523)	817
Contribution to consolidated net income	\$ 991	\$ 2,554

Contribution from natural gas operations declined \$1.6 million in the first nine months of 2003 compared to the same period a year ago. The decrease was principally the result of lower operating margin and increased operating expenses, substantially offset by the change in other (income) expense.

Operating margin decreased \$11.2 million, or three percent, compared to the same period a year ago. Differences in heating demand caused by weather variations between periods resulted in a \$17.5 million margin decrease as warmer-than-normal temperatures were experienced during both periods. Customer growth net of conservation, energy efficiencies, and other factors, partially offset the weather variance.

Operations and maintenance expense was virtually unchanged from the same period a year ago. The impacts of general cost increases and costs associated with the continued expansion and upgrading of the gas system to accommodate customer growth were offset by cost-curbing management initiatives begun in the fourth quarter of 2002. Operations and maintenance expenses overall are expected to trend higher over the longer term.

Depreciation expense and general taxes increased \$5.4 million, or five percent, as a result of construction activities. Average gas plant in service increased \$227 million, or nine percent, as compared to the first nine months of 2002. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Other (income) expense improved \$13.2 million between periods as the prior period included several non-recurring income and expense items. These included approximately \$21.3 million in costs associated with settlements of merger-related litigation, merger litigation costs, and a regulatory disallowance in California. Partially offsetting these charges was a one-time pretax gain of \$8.9 million on the sale of undeveloped property recorded in the first quarter of 2002.

Twelve-Month Analysis

	Twelve Months Ended September 30,	
	2003	2002
	(Thousands of dollars)	
Gas operating revenues	\$ 1,014,275	\$ 1,165,437
Net cost of gas sold	472,942	618,610
Operating margin	541,333	546,827
Operations and maintenance expense	264,431	261,558
Depreciation and amortization	119,567	111,896
Taxes other than income taxes	35,613	34,253
Operating income	121,722	139,120
Other (income) expense	(16,344)	7,963
Net interest deductions	77,949	78,040
Net interest deductions on subordinated debentures	750	--
Preferred securities distributions	5,549	5,475
Income before income taxes	53,818	47,642
Income tax expense	16,153	15,184
Contribution to consolidated net income	\$ 37,665	\$ 32,458

Contribution to consolidated net income increased \$5.2 million in the current twelve-month period compared to the same period a year ago. The improvement was the result of an increase in other (income) expense which was partially offset by a decrease in operating margin and higher operating costs.

Operating margin decreased \$5.5 million between periods. Differences in heating demand caused by weather variations between periods resulted in a \$22 million margin decrease as warmer-than-normal temperatures were experienced during both periods. During the current twelve-month period, operating margin was negatively impacted by \$35 million, and in the prior period, the negative impact was \$13 million. Customer growth, partially offset by conservation, energy efficiencies,

and other factors, contributed a net \$15 million in incremental margin. Rate relief granted during the fourth quarter of 2001 added \$1.5 million of margin.

Operations and maintenance expense increased \$2.9 million, or one percent. The impacts of general cost increases and costs associated with the continued expansion and upgrading of the gas system to accommodate customer growth were offset by cost-curbing management initiatives begun in the fourth quarter of 2002. Operations and maintenance expenses overall are expected to trend higher over the longer term.

Depreciation expense and general taxes increased \$9 million, or six percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased \$226 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.

Other (income) expense improved \$24.3 million between periods. The timing of merger-related litigation settlements, merger litigation costs, and the associated insurance recoveries in the fourth quarter of 2002 resulted in \$14.6 million of income in the current period and \$18.9 million of costs in the prior period. Prior-period results also included \$11.9 million in gains on the sale of property and other assets recognized during the fourth quarter of 2001 and first quarter of 2002. In addition, a California regulatory disallowance recorded during the second and third quarters of 2002 totaled \$2.7 million.

Net financing costs increased less than one percent between periods as the impacts of incremental borrowings to finance construction expenditures were offset by lower interest rates on variable-rate and refinanced debt and preferred securities.

15

Income tax expense in the current period includes \$2.7 million of income tax benefits, recognized in the fourth quarter of 2002, associated with state taxes and other items. The prior twelve-month period included \$2.5 million of income tax benefits, recognized in the fourth quarter of 2001, associated with the favorable resolution of state income tax issues.

Rates and Regulatory Proceedings

California General Rate Cases. In February 2002, Southwest filed general rate applications with the California Public Utilities Commission (CPUC) for its northern and southern California jurisdictions. The applications sought annual increases over a five-year rate case cycle with a cumulative total of \$6.3 million in northern California and \$17.2 million in southern California.

In July 2002, the Office of Ratepayer Advocates (ORA) filed testimony in the rate case recommending significant reductions to the rate increases sought by Southwest. The ORA did concur with the majority of the Southwest rate design proposals including a margin tracking mechanism to mitigate weather-related and other usage variations. At the hearing that was held in August 2002, Southwest modified its proposal from a five-year to a three-year rate case cycle and accordingly reduced its cumulative request to \$4.8 million in northern California and \$10.7 million in southern California. For 2003, the amounts requested were \$2.6 million in northern California and \$5.7 million in southern California. The final general rate case decision, originally anticipated to have an effective date of January 2003, was delayed due to the reassignment of the Administrative Law Judge (ALJ) assigned to the case. As a result of this delay, Southwest filed a motion during the first quarter of 2003 requesting authorization to establish a memorandum account to record the related revenue shortfall between the existing and proposed rates in the general rate case filing. This motion was approved, effective May 2003. In October 2003, the ALJ rendered a draft decision on the general rate case, which if approved as drafted would increase rates by about 70 percent of the 2003 amount filed for and provide for attrition increases beginning in 2004. The Company is still analyzing the draft decision which includes a brief comment period for all parties before a final CPUC decision is made. A final decision is expected by the first quarter of 2004. The last general rate increases received in California were January 1998 in northern California and January 1995 in southern California.

PGA Filings

The rate schedules in all of the service territories contain PGA clauses, which permit adjustments to rates as the cost of purchased gas changes. Filings to change rates in accordance with PGA clauses are subject to audit by state regulatory commission staffs. PGA changes impact cash flows but have no direct impact on profit margin. As of September 30, 2003, Southwest had the following PGA balances outstanding:

Arizona	Over-recovered	\$ 14.6 million
Northern Nevada	Over-recovered	\$ 2.5 million
Southern Nevada	Over-recovered	\$ 12.4 million
California	Under-recovered	\$ 7.1 million

In June 2003, Southwest filed its annual PGA with the Public Utilities Commission of Nevada (PUCN). Southwest is recommending a change to a monthly PGA mechanism, rather than annual, to reduce volatility in rate changes. Southwest is proposing a 12-month rolling average of actual gas costs to set rates each month. If the monthly PGA is approved by the PUCN, it is anticipated that rates would increase 12.2 percent for customers in southern Nevada and decrease 13.1 percent in northern Nevada. If the monthly proposal is rejected and the current annual PGA method is retained, it is anticipated that rates would increase 12.2 percent in southern Nevada and decrease 10.2 percent in northern Nevada. A decision is expected in the fourth quarter of 2003.

Other Filings

Since November 1999, the Federal Energy Regulatory Commission (FERC) has been examining capacity allocation issues on the El Paso Natural Gas Company (El Paso) system in several proceedings. This examination resulted in a series of

16

orders by the FERC in which all of the major full requirements transportation service agreements on the El Paso system, including the agreement by which Southwest obtains the transportation of gas supplies to its Arizona service areas, were converted to contract demand-type service agreements, with fixed maximum service limits, effective September 2003. At that time, all of the transportation capacity on the system was allocated among the shippers. In order to help ensure that the converting full requirements shippers would have adequate capacity to meet their needs, El Paso was authorized to expand the capacity on its system by adding compression. Management believes adequate capacity exists to meet the requirements of its customers for this coming heating season.

The FERC is continuing to examine issues related to the implementation of the full requirements conversion. Petitions for judicial review of the FERC's orders mandating the conversion have been filed.

Management believes that it is difficult to predict the ultimate outcome of the proceedings or the impact of the FERC action on Southwest. Additional costs may be incurred to acquire capacity in the future as a result of the FERC order. It is anticipated that any additional costs will be collected from customers through the PGA mechanism.

Recently Issued Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46 "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51" (FIN 46) effective July 2003. This Interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities. FIN 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. Trust II, the issuer of the Preferred Trust Securities, meets the definition of a variable interest entity.

Although the Company owns 100 percent of the common voting securities of Trust II, under current interpretation of FIN 46, the Company is not considered the primary beneficiary of this trust and therefore Trust II is not consolidated. This results in the Company reflecting a liability to Trust II, which under the prior accounting treatment would have been eliminated in consolidation, instead of to the holders of the Preferred Trust Securities. As a result, payments and amortizations associated with the liability are classified on the consolidated statements of income as Net interest deductions on subordinated debentures. The \$103.1 million Subordinated Debentures are shown on the balance sheet of the Company net of the \$3.1 million Common Securities as Subordinated debentures due to Southwest Gas Capital II.

The effective date for variable interest entities in existence before February 1, 2003 was delayed until the end of the first interim or annual period ending after December 15, 2003, thus the consolidation of Southwest Gas Capital I is not currently affected by FIN 46.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which is effective for contracts entered into or modified after September 30, 2003 with exceptions for certain types of securities. SFAS No. 149 clarifies the definition and characteristics of a derivative and amends other existing pronouncements for consistency. The Company does not currently utilize stand-alone derivative instruments for speculative purposes or for hedging and does not have foreign currency exposure. None of the Company's long-term financial instruments or other contracts are derivatives, or contain embedded derivatives with significant mark-to-market value. The adoption of the standard did not have a material impact on the financial position or results of operations of the Company.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 addresses the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires those instruments be classified as liabilities in statements of financial position. The adoption of the standard did not have a material impact on the financial position or results of operations of the Company.

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, customer growth rates, natural gas prices, the effects of regulation/deregulation, the timing and amount of rate relief, 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, acquisitions, and competition. For additional information on the risks associated with the Company's business, see **Item 1. Business-Company Risk Factors** in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** in the Company's 2002 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the Company's disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Based on the most recent evaluation, as of September 30, 2003, management of the Company, including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting during the third quarter that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company has been named as a defendant in various 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 2-5. None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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

- [Exhibit 3\(ii\)](#) -- Amended Bylaws of Southwest Gas Corporation.
- [Exhibit 10](#) -- Financing Agreement between the Company and Clark County, Nevada, dated March 1, 2003.
- [Exhibit 12](#) -- Computation of Ratios of Earnings to Fixed Charges.
- [Exhibit 31](#) -- Section 302 Certifications.
- [Exhibit 32](#) -- Section 906 Certifications.

18

(b) Reports on Form 8-K:

On [August 25, 2003](#), the Company filed a Form 8-K containing exhibits pertaining to the Southwest Gas Capital II issuance of Preferred Trust Securities.

On [September 18, 2003](#), the Company disclosed the election of LeRoy Hanneman as a director of Southwest Gas Corporation pursuant to Item 5 of Form 8-K.

On [October 29, 2003](#), the Company furnished summary financial information for the quarter, nine and twelve months ended September 30, 2003 pursuant to Item 12 of Form 8-K.

19

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: November 10, 2003

/s/ Roy R. Centrella

Roy R. Centrella
Vice President/Controller and Chief Accounting Officer

20

BYLAWS
OF
SOUTHWEST GAS CORPORATION
(As amended 9/16/03)

BYLAWS

OF

SOUTHWEST GAS CORPORATION

ARTICLE I

Section 1. Principal Office

The principal office for the transaction of the business of the corporation is hereby fixed and located at 5241 Spring Mountain Road, in the City of Las Vegas, County of Clark, State of Nevada.

Section 2. Other Offices

Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the corporation is qualified to do business.

Section 3. Terminology

All personal pronouns used herein are employed in a generic sense and are intended and deemed to be neutral in gender.

ARTICLE II

MEETING OF SHAREHOLDERS

Section 1. Regular Meeting

Commencing in May, 1988, the regular annual meeting of the shareholders shall be held at the principal office of the corporation, or at such other place within or without the State of California as the officers of the corporation may deem convenient and appropriate, at 10 a.m. on the second Thursday of May of each year, if not a legal holiday, and if a legal holiday, then at 10 a.m. on the next succeeding business day, for the purpose of electing a Board of Directors and transacting such other business as properly may come before the meeting; provided, however, that the Board of Directors may, by resolution, establish a different date not more than 120 days thereafter if, in its sole discretion, it deems such postponement appropriate.

- 1 -

Section 2. Special Meetings

Except in those instances where a particular manner of calling a meeting of the shareholders is prescribed by law or elsewhere in these Bylaws, a special meeting of the shareholders may be called at any time by the Chief Executive Officer or other officers acting for him or by the Board of Directors, or by the holders of not less than one-third of the voting shares then issued and outstanding. Each call for a special meeting of the shareholders shall state the time, place, and the purpose of such meeting; if made by the Board of Directors, it shall be by resolution duly adopted by a majority vote and entered in the minutes; if made by an authorized officer or by the shareholders, it shall be in writing and signed by the person or persons making the same, and unless the office of Secretary be vacant, delivered to the Secretary. No business shall be transacted at a special meeting other than as is stated in the call and the notice based thereon.

Section 3. Notice of Regular and Special Meetings
of the Shareholders

Notice of each regular and special meeting of the shareholders of the corporation shall be given by mailing to each shareholder a notice of the time, place and purpose of such meeting addressed to him at his address as it appears upon the books of the corporation. Each such notice shall be deposited in the United States Mail with the postage thereon prepaid at least ten days prior to the time fixed for such meeting. If the address of any such shareholder does not appear on the books of the corporation and his post office address is unknown to the person mailing such notices, the notice shall be addressed to him at the principal office of the corporation.

Section 4. Quorum

At any meeting of the shareholders, the presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business, except when it is otherwise provided by law. Any regular or special meeting of the shareholders may adjourn from day to day or from time to time if, for any reason, there are not present in person or by proxy the holders of a majority of the shares entitled to vote at said meeting. Such adjournment and the reasons therefor shall be recorded in the minutes of the proceedings.

Section 5. Waiver of Notice

When all the shareholders of the corporation are present at any meeting, or when the shareholders not represented thereat give their written consent to the holding thereof at the time and place the meeting is held, and such written consent is made a part of the records of such meeting, the proceedings had at such meeting are valid, irrespective of the manner in which the meeting is called or the place where it is held.

- 2 -

Section 6. Proper Business for Shareholder Meetings

1. At a meeting of the shareholders, only such business shall be proper as shall be brought before the meeting: (i) pursuant to the corporation's notice of meeting; (ii) by or at the direction of the Board of Directors of the corporation; or (iii) by any shareholder of the corporation who is a shareholder of record at the time of giving the notice provided for herein, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth herein.

2. For business to be properly brought before a meeting by a shareholder pursuant to clause (iii) above, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely as to an annual meeting of shareholders, a shareholder's notice must be received at the principal executive office of the corporation not less than 120 calendar days before the date of the corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided however, that if the date of the meeting is changed by more than 30 days from the date of the previous year's meeting, notice by shareholder to be timely must be received no later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting of shareholders, a shareholder notice must be received not later than the call of the meeting as provided for in Section 2 of this Article II. Such shareholder notice shall set forth as to each matter the shareholder proposes to bring before the meeting: (a) a brief description of and the reasons for proposing such matter at the meeting; (b) the name and address, as they appear on the corporation's books, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made; (c) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder of record and by the beneficial owner, if any, on whose behalf the proposal is made; and (d) any material interest of such shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made, in such proposal.

3. Notwithstanding anything in these Bylaws to the contrary, no business shall be proper at a meeting unless brought before it in accordance with the procedures set forth herein. Further, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth herein.

4. The Chairman of the Board of Directors of the corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the procedures proscribed herein, and if the chairman should so determine, that any such business not properly brought before the meeting shall not be transacted.

- 3 -

5. Notwithstanding anything provided herein to the contrary, the procedures for submission of shareholder proposals have not expended, altered or affected in any manner, whatever rights or limitations may exist regarding the ability of a shareholder of the corporation to submit to a proposal for consideration by shareholders of the corporation under California or federal law.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Number — Quorum

The business of the corporation shall be managed by a Board of Directors, whose number shall be not fewer than eleven (11) nor greater than fourteen (14), as the Board of Directors or the shareholders by amendment of these Bylaws may establish, provided, however, that a reduction in the authorized number of directors shall not remove any director prior to the expiration of his term of office, and provided further that the shareholders may, pursuant to law, establish a different and definite number of directors or different maximum and minimum numbers of directors by amendment of the Articles of Incorporation or by a duly adopted amendment to these Bylaws. A majority of the prescribed number of directors shall be necessary to constitute a quorum for the trans- action of business. At a meeting at which a quorum is present, every decision or act of a majority of the directors present made or done when duly assembled shall be valid as the act of the Board of Directors, provided that a minority of the directors, in the absence of a quorum, may adjourn from day to day but may transact no business.

Section 2. Exact Number of Directors

The number of directors of the corporation is hereby established, pursuant to the provisions of Section 1 of this Article III, as twelve (12).

Section 3. Director Nominating Procedure

1. Except for the filling of vacancies, as provided for in Section 6 of this Article III, only persons who are nominated in accordance with the procedures set forth herein shall be qualified to serve as directors. Nominations of persons for election to the Board may be made at a meeting of shareholders (a) by or at the direction of the Board or (b) by any shareholder of the corporation who is a shareholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Bylaw.

- 4 -

2. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary. To be timely as to an annual meeting, a shareholder's notice must be received at the principal executive offices of the corporation not less than 20 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting at which directors are to be elected, a shareholder's notice must be received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to the shareholder giving the notice (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the class and number of shares of the corporation which are beneficially owned by such shareholder and also which are owned of record by such shareholder; and (c) as to the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such person and (ii) the class and number of shares of the corporation which are beneficially owned by such person. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the Secretary that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee.

3. Except for the filling of vacancies, as provided for in Section 6 of this Article III, no person shall be qualified to serve as a director of the corporation unless nominated in accordance with the procedures set forth in this Bylaw. The Chairman of the Board of Directors of the corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if the chairman should so determine, that the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

Section 4. Qualification of Directors

The majority of directors of the Board of Directors shall not be officers or employees of the corporation or any of its subsidiaries and shall not have held such positions at any time during the three years prior to election or selection to the Board of Directors. Whether an individual,

- 5 -

who is an officer or employee of the corporation or any of its subsidiaries, satisfies this qualification requirement will be determined at the time of his or her election or selection.

Section 5. Election and Term of Office

The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. All directors shall hold office until their respective successors are elected and qualified.

Section 6. Vacancies

Vacancies in the Board of Directors may be filled by a majority of the remaining directors, though they be less than a quorum, and each director so elected shall hold office until his successor is qualified following the election at the next annual meeting of the shareholders or at any special meeting of shareholders duly called for that purpose prior to such annual meeting. A vacancy shall be deemed to exist in case the shareholders (or the Board of Directors, within the provisions of Section 1 of this Article III) shall increase the authorized number of directors, but shall fail, for a period of thirty days from the effective date of such increase, to elect the additional directors so provided for, or in case the shareholders fail at any time to elect the full number of authorized directors. When one or more of the directors shall give notice to the Board of Directors of his or their resignation from said Board, effective at a future date, the Board of Directors shall have the power to fill such vacancy or vacancies to take effect when such resignation or resignations become effective. Each director so appointed shall hold office during the remainder of the term of office of the resigning director or directors or until their successors are appointed and qualify.

Section 7. First Meeting of Directors

Immediately following each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business. Notice of such meeting is hereby dispensed with.

Section 8. Regular Meetings

Commencing in 1991, the time for other regular meetings of the Board of Directors, when held, shall be 8 a.m. on the third Tuesday of January, July, September and November, the first Tuesday of March and the second Wednesday of May, unless a

different schedule is established by a resolution of the Board. If any regular meeting date shall fall on a legal holiday, then the regular meeting date shall be the business day next following.

- 6 -

Section 9. Special Meetings

A special meeting of the Board of Directors shall be held whenever called by the Chief Executive Officer or other officer acting for him, or by three directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the Secretary, and shall state the time and place of such meeting.

Section 10. Notice of Regular and Special Meetings of the Directors

No notice shall be required to be given of any regular meeting of the Board of Directors, but each director shall take notice thereof. Notice of each special meeting of the Board of Directors shall be given to each of the directors by: (i) mailing to each of them a copy of such notice at least five days; or (ii) delivering personally or by telephone, including voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail or other electronic means such notice at least 48 hours, prior to the time affixed for such meeting to the address of such director as shown on the books of the corporation. If his address does not appear on the books of the corporation, then such notice shall be addressed to him at the principal office of the corporation.

Section 11. Waiver of Notice

When all the directors of the corporation are present at any meeting of the Board of Directors, however called or noticed, and sign a written consent thereto on the record of such meeting, or if the majority of the directors are present, and if those not present sign in writing a waiver of notice of such meeting, whether prior to or after the holding of such meeting, which waiver shall be filed with the Secretary of the corporation, the transactions of such meeting are as valid as if had at a meeting regularly called and noticed.

Section 12. Action by Unanimous Consent of Directors

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board, and such action by written consent shall have the same force and effect as if approved or taken at a regular meeting duly held. Any certificate or other document which relates to action so taken shall state that the action was taken by unanimous written consent of the Board of Directors without a meeting, and that these Bylaws authorize the directors to so act.

- 7 -

Section 13. Telephonic Participation in Meetings

Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

ARTICLE IV

POWERS OF DIRECTORS

Section 1. The directors shall have power:

1. To call special meetings of the shareholders when they deem it necessary, and they shall call a meeting at any time upon the written request of shareholders holding one-third of all the voting shares;
2. To appoint and remove at pleasure all officers and agents of the corporation, prescribe their duties, fix their compensation, and require from them as necessary security for faithful service;
3. To create and appoint committees, offices, officers and agents of the corporation, and to prescribe and from time to time change their duties and compensation, but no committee shall be created and no member appointed thereto except upon approval of a majority of the whole Board of Directors; and
4. To conduct, manage, and control the affairs and business of the corporation and to make rules and regulations not inconsistent with the laws of the State of California, or the Bylaws of the corporation, for the guidance of the officers and management of the affairs of the corporation.

ARTICLE V

DUTIES OF DIRECTORS

Section 1. It shall be the duty of the directors:

1. To cause to be kept a complete record of all their minutes and acts, and of the proceedings of the shareholders, and present a full statement at the regular annual meeting of the shareholders, showing in detail the assets and liabilities of the corporation, and generally the condition of its affairs. A similar statement shall be presented at any other meeting of the shareholders when theretofore required by persons holding at least one-half of the voting shares of the corporation;

- 8 -

2. To declare dividends out of the profits arising from the conduct of the business, whenever such profits shall, in the opinion of the directors, warrant the same;
3. To oversee the actions of all officers and agents of the corporation, see that their duties are properly performed; and
4. To cause to be issued to the shareholders, in proportion to their several interests, certificates of stock.

ARTICLE VI

OFFICERS

Section 1. The officers shall include a Chairman of the Board of Directors, a Chief Executive Officer, who may be designated Chairman, a President, a Secretary, a Treasurer, a Controller, and may include one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Vice Presidents, Assistant Secretaries, and Assistant Treasurers. All such officers shall be elected by and hold office at the pleasure of the Board of Directors, provided that the Chief Executive Officer shall have authority to dismiss any other officer. Any director shall be eligible to be the Chairman of the Board of Directors and any two or more of such offices may be held by the same person, except that the Chief Executive Officer or President may not also hold the office of Secretary. Any officer may exercise any of the powers of any other officer in the manner specified in these Bylaws, as specified from time to time by the Board of Directors, and/or as specified from time to time by the Chief Executive Officer or senior officer acting in his or her absence or incapacity, and any such acting officer shall perform such duties as may be assigned to him or her.

ARTICLE VII

FEES AND COMPENSATION

Section 1. Directors shall be reimbursed for their expenses, and shall be compensated for their services as directors in such amounts as the Board may fix by resolution. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

- 9 -

ARTICLE VIII

INDEMNIFICATION

Section 1. Indemnification of Directors and Officers

Each person who was or is a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, formal or informal, whether brought in the name of the corporation or otherwise and whether of a civil, criminal, administrative or investigative nature (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is an alleged action or inaction in an official capacity or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise tax or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith, and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that (a) the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of the corporation, (b) the corporation shall indemnify such person seeking indemnification in connection with a proceeding (or part thereof) other than a proceeding by or in the name of the corporation to procure a judgment in its favor only if any settlement of such a proceeding is approved in writing by the corporation, and (c) that no such person shall be indemnified (i) except to the extent that the aggregate of losses to be indemnified exceeds the amount of such losses for which the director or officer is paid pursuant to any directors' and officers' liability insurance policy maintained by the corporation; (ii) on account of any suit in which judgment is rendered against such person for an accounting of profits made from the purchase or sale by such person of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; (iii) if a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful; (iv) for acts or omissions involving intentional misconduct or knowing and culpable violation of law; (v) for acts or omissions that the director or officer believes to be contrary

- 10 -

to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director or officer; (vi) for any transaction for which the director or officer derived an improper personal benefit; (vii) for acts or omissions that show a reckless disregard for the director's or officer's duty to the corporation or its shareholders in circumstances in which the director or officer was aware, or should have been aware, in the ordinary course of performing his or her duties, of a risk of serious injury to the corporation or its shareholders; (viii) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's or officer's duties to the corporation or its shareholders; (ix) for costs, charges, expenses, liabilities and losses arising under Section 310 or 316 of the General Corporation Law of California (the "Law"); and (x) as to circumstances in which indemnity is expressly prohibited by Section 317 of the Law. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the corporation expenses incurred in defending any proceeding in advance of its final disposition;

provided, however, that if the Law requires the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, such advances shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts to the corporation if it shall be ultimately determined that such person is not entitled to be indemnified.

Section 2. Indemnification of Employees and Agents

A person who was or is a party or is threatened to be made a party to or is involved in any proceedings by reason of the fact that he or she is or was an employee or agent of the corporation or is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to employee benefit plans, whether the basis of such action is an alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permitted by California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement), reasonably incurred or suffered by such person in connection therewith. The immediately preceding sentence is not intended to be and shall not be considered to confer a contract right on any employee or agent (other than directors and officers) of the corporation.

Section 3. Right of Directors and Officers to Bring Suit

If a claim under Section 1 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. Neither the failure of the

- 11 -

corporation (including its Board, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met the applicable standard of conduct, if any, nor an actual determination by the corporation (including its Board, independent legal counsel, or its shareholders) that the claimant has not met the applicable standard of conduct, shall be a defense to the action or create a presumption for the purpose of an action that the claimant has not met the applicable standard of conduct.

Section 4. Successful Defense

Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.

Section 5. Non-Exclusivity of Rights

The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

Section 6. Insurance

The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the law.

Section 7. Expenses as a Witness

To the extent that any director, officer, employee or agent of the corporation is by reason of such position, or a position with another entity at the request of the corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her on his or her behalf in connection therewith.

- 12 -

Section 8. Indemnity Agreements

The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under the law and the corporation's Articles of Incorporation.

Section 9. Separability

Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and claimant, the broadest possible indemnification permitted under applicable law.

Section 10. Effect of Repeal or Modification

Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director or officer existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification.”

ARTICLE IX

CHAIRMAN OF THE BOARD

Section 1. If there shall be a Chairman of the Board of Directors, he shall, when present, preside at all meetings of the stockholders and the Board of Directors, and perform such other duties as the Bylaws or the Board of Directors shall require of him.

ARTICLE X

CHIEF EXECUTIVE OFFICER; OTHER EXECUTIVE OFFICERS

Section 1. The Board of Directors shall, at their first regular meeting, elect such officers as are required by Article VI hereof and such additional officers authorized by Article VI hereof as the Board, in its discretion, may choose to elect. If at any time the Chief Executive Officer shall be unable to act, the President (if there shall be one who is not also the Chief Executive Officer) shall act in his place and perform his duties; if the President or next most senior officer is unable to perform such duties, then the vice presidents, in such sequence as the Board of Directors may specify, shall act. If all the foregoing shall be unable to act, the senior officer among them shall appoint some other person in

- 13 -

whom shall be vested, for the time being, all the duties and functions of Chief Executive Officer, to act until the Board of Directors can be convened and elect appropriate officers. The Chief Executive Officer (or person acting as such) shall:

1. Preside (if there shall be no Chairman of the Board of Directors or in his absence) over all meetings of the shareholders and directors;
2. Sign in behalf of the corporation contracts and other instruments in writing within the scope of his authority or if, when, and as directed so to do by the Board of Directors, but nothing herein shall limit the power of the Board of Directors to authorize such contracts and other instruments in writing to be signed by any other officer or person or limit the power of the Chief Executive Officer to delegate his authority in any such matter to another officer or other officers of the corporation. The Chief Executive Officer or any other officer specified by the Board of Directors may sign certificates of stock as provided in Article XIII hereof;
3. Delegate duties and responsibilities to any other officers and/or employees of the corporation in any manner not prohibited by these Bylaws or by the Board of Directors, and change such duties and responsibilities so delegated from time to time at will;
4. Call the directors together when he deems it necessary, and have, subject to the advice of the directors, direction of the affairs of the corporation; and
5. Generally discharge such other duties as may be required of him by the Bylaws of the corporation.

ARTICLE XI

SECRETARY

Section 1. The Board of Directors shall elect a Secretary:

1. It shall be the duty of the Secretary to keep a record of proceedings of the Board of Directors and of the shareholders, and to keep the corporate seal of the corporation. He shall be responsible for maintaining proper records showing the number of shares of stock of all classes and series issued and transferred by any shareholder, and the dates of such issuance and transfer;
2. Whenever it is provided in these Bylaws that notice shall be given either of regular or special meetings of the shareholders, regular or special meetings of the directors, or otherwise, such notice shall be given by the Secretary or by the Chief Executive Officer or by any person designated by either of them, or by any authorized person who shall have signed the call for such meeting. Any notice which the Secretary may give or serve, or act required to be done by him, may with like effect be given or served or done by or under the direction of an Assistant Secretary;

- 14 -

3. The Secretary shall discharge such other duties as pertain to his office or which may be prescribed by the Board of Directors.

ARTICLE XII

TREASURER

Section 1. The Treasurer shall receive and keep all the funds of the corporation and pay them out only on checks or otherwise, as directed by the Board of Directors; provided, however, that the Board of Directors may provide for a depository of the funds of the corporation, and may by resolution prescribe the manner in which said funds shall be drawn from said depository.

ARTICLE XIII

CERTIFICATES OF STOCK

Section 1. Certificates of stock shall be of such form and device as the Board of Directors may direct, and shall be signed by the genuine or facsimile signatures of the Chairman and Chief Executive Officer or the President or any authorized Vice President and the Secretary or an Assistant Secretary. Each certificate shall express on its face its number, date of issuance, the number of shares for which and the person to whom it is issued, the kind of shares represented by said certificate, and such other matters as may be required by law. Certificates of stock may be issued prior to full payment, in harmony with all permits issued by regulatory authorities having jurisdiction in the premises, or as is otherwise allowed by law, but any certificate issued prior to full payment must show on its face what amount has been paid thereon.

ARTICLE XIV

TRANSFER OF STOCK

Section 1. Shares of stock of the corporation may be transferred at any time by the holders, or by power of attorney, or by their legal representative, by endorsement on the certificate of stock, but no transfer is valid until the surrender of the endorsed certificate. A surrendered certificate shall be delivered up for cancellation before a new one is issued in lieu thereof, and the Secretary shall preserve the certificate so canceled or a suitable record thereof. If, however, a certificate is lost or destroyed, the Board of Directors may order a new certificate issued as is by law required or permitted.

- 15 -

ARTICLE XV

VOTING

Section 1. At all corporate meetings, each shareholder, either in person or by proxy, shall be entitled to as many votes as he owns shares of stock; however, every shareholder entitled to vote at any election for directors shall have the right to cumulate his votes.

Section 2. Proxies

Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary of the corporation; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution, unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no case shall exceed seven (7) years from the date of its execution.

ARTICLE XVI

INDEBTEDNESS

Section 1. The Board of Directors shall have power to incur indebtedness, and the terms and amount thereof shall be entered in the minutes. The Board of Directors shall have the power to secure said indebtedness, or any obligation or obligations of the corporation, by pledge, mortgage, deed of trust, or other security given upon any property owned by it or in which it has any interest.

ARTICLE XVII

REGISTRAR AND/OR TRANSFER AGENT

Section 1. The Board of Directors may designate and appoint one or more registrars and/or transfer agents for the registration of the stock of the corporation, and make such rules and regulations for the registrations of stock at the office of such registrars and/or transfer agents as may to the Board of Directors seem desirable. The corporation may act as its own transfer agent, at the direction of the Board of Directors. The Board of Directors may, in its discretion, fix a transfer fee for transfer of stock certificates.

- 16 -

ARTICLE XVIII

MISCELLANEOUS

Section 1. Meetings. Notice. When Conclusive.

An entry made in the minutes of the directors or shareholders, pursuant to resolution or recital, to the effect that the notice of such meeting required by these Bylaws to be given has been given, shall be conclusive upon the corporation, its directors, shareholders, and all other persons that such notice has been duly given in proper form and substance to the proper persons and for the requisite length of time.

ARTICLE XIX

SEAL

Section 1. The Board of Directors shall provide a suitable seal containing the name of the corporation, the years of its creation, and other appropriate words, and may alter the same at pleasure.

ARTICLE XX

AMENDMENTS TO BYLAWS

Section 1. Power of Shareholders

New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such shareholders, except as otherwise provided by law or by the Articles of Incorporation.

Section 2. Power of Directors

Subject to the right of the shareholders as provided in Section 1 of this Article XX to adopt, amend or repeal Bylaws, the Board of Directors may adopt, amend or repeal any of the Bylaws of this corporation, except that the powers of the Board of Directors to change, and/or establish the authorized number of directors of this corporation shall be as set forth in Article III of these Bylaws.

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I hereby certify that the foregoing is a full, true, and correct copy of the Bylaws of Southwest Gas Corporation, a California corporation, as in effect on the date hereof. WITNESS my hand this 16th day of September 2003.

/s/ George C. Biehl

George C. Biehl
Executive Vice President/Chief Financial
Officer and Corporate Secretary

FINANCING AGREEMENT

Dated as of March 1, 2003

By and Between

CLARK COUNTY, NEVADA

and

SOUTHWEST GAS CORPORATION

relating to

CLARK COUNTY, NEVADA

INDUSTRIAL DEVELOPMENT REVENUE BONDS
(SOUTHWEST GAS CORPORATION PROJECT)

SERIES 2003A, SERIES 2003B, SERIES 2003C, SERIES 2003D AND SERIES 2003E

ARTICLE I	DEFINITIONS	1
SECTION 1.1	Definitions of Terms	1
SECTION 1.2	Number and Gender	1
SECTION 1.3	Articles, Sections	1
ARTICLE II	REPRESENTATIONS	2
SECTION 2.1	Representations by the Issuer	2
SECTION 2.2	Representations by the Borrower	3
ARTICLE III	THE PROJECT; ISSUANCE OF THE BONDS	4
SECTION 3.1	The Project	4
SECTION 3.2	Agreement to Issue Bonds; Application of Bond Proceeds	4
SECTION 3.3	Disbursements from the Construction Fund and the Costs of Issuance Fund	4
SECTION 3.4	Investment of Moneys	6
SECTION 3.5	Costs of Issuance	6
ARTICLE IV	LOAN AND PROVISIONS FOR REPAYMENT	6
SECTION 4.1	Loan of Bond Proceeds	6
SECTION 4.2	Loan Repayments and Other Amounts Payable	6
SECTION 4.3	Unconditional Obligation	8
SECTION 4.4	Payments Pledged and Assigned	9
SECTION 4.5	Payment of the Bonds and Other Amounts	9
ARTICLE V	SPECIAL COVENANTS AND AGREEMENTS	10
SECTION 5.1	Right of Access to the Project and Records	10
SECTION 5.2	Borrower's Maintenance of Its Existence; Assignments	10
SECTION 5.3	Establishment of Completion Date; Obligation of Borrower to Complete	12
SECTION 5.4	Maintenance and Repair; Taxes; Utility and Other Charges	12
SECTION 5.5	Qualification in Nevada	13
SECTION 5.6	No Warranty by the Issuer	13
SECTION 5.7	Agreement as to Use of the Project	13
SECTION 5.8	Notices and Certificates Required to be Delivered to the Trustee	13
SECTION 5.9	Borrower to Furnish Notice of Adjustments of Interest Rate Periods	13
SECTION 5.10	Information Reporting	14
SECTION 5.11	Tax Covenants; Rebate	14
SECTION 5.12	Continuing Disclosure	15
SECTION 5.13	Liquidity Facility	15
SECTION 5.14	Letter of Credit	15
SECTION 5.15	Requirement to Deliver Letter of Credit or Liquidity Facility Under Certain Circumstances	16
SECTION 5.16	Bond Insurance	16
ARTICLE VI	EVENTS OF DEFAULT AND REMEDIES	17
SECTION 6.1	Events of Default Defined	17
SECTION 6.2	Remedies on Default	18
SECTION 6.3	No Remedy Exclusive	21
SECTION 6.4	Agreement to Pay Fees and Expenses of Counsel	21
SECTION 6.5	No Additional Waiver Implied by One Waiver; Consents to Waivers	21
ARTICLE VII	OPTION AND OBLIGATION OF BORROWER TO PREPAY	22
SECTION 7.1	Option to Prepay	22
SECTION 7.2	Obligation to Prepay	22
SECTION 7.3	Notice of Prepayment; Amount to be Prepaid	22
SECTION 7.4	Cancellation at Expiration of Term	23
ARTICLE VIII	NON-LIABILITY OF ISSUER	23
SECTION 8.1	Non-Liability of the Issuer	23
ARTICLE IX	MISCELLANEOUS	23
SECTION 9.1	Notices	23
SECTION 9.2	Assignments	24
SECTION 9.3	Severability	24
SECTION 9.4	Execution of Counterparts	24
SECTION 9.5	Amounts Remaining in Bond Fund	24
SECTION 9.6	Amendments, Changes and Modifications	24

SECTION 9.7	Governing Law	24
SECTION 9.8	Authorized Issuer and Borrower Representatives	24
SECTION 9.9	Term of the Agreement	24

SECTION 9.10	Binding Effect	25
SECTION 9.11	Trustee as a Party in Interest and Third Party Beneficiary	25
EXHIBIT A-1	Description of the Prior Project	A-1-1
EXHIBIT A-2	Description of the New Money Project	A-2-1

THIS FINANCING AGREEMENT made and entered into as of March 1, 2003 (this “Agreement”), by and between CLARK COUNTY, NEVADA, a political subdivision of the State of Nevada, party of the first part (hereinafter sometimes referred to as the “Issuer”), and SOUTHWEST GAS CORPORATION, a California corporation, party of the second part (hereinafter sometimes referred to as the “Borrower”),

W I T N E S S E T H:

WHEREAS, concurrently with the execution and delivery of this Agreement, the Issuer is entering into an Indenture of Trust, dated as of March 1, 2003 (the “Indenture”), with BNY Midwest Trust Company, as trustee (the “Trustee”) thereunder, pursuant to which \$50,000,000 principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation Project) Series 2003A, \$50,000,000 principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation Project) Series 2003B, \$30,000,000 principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation Project) Series 2003C, \$20,000,000 principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation Project) Series 2003D and \$15,000,000 principal amount of Clark County, Nevada Industrial Development Revenue Bonds (Southwest Gas Corporation Project) Series 2003E, will be issued and secured; and

WHEREAS, the Issuer hereby confirms and the Borrower hereby acknowledges and adopts the recitals to the Indenture as though fully set forth here;

NOW, THEREFORE, in consideration of the respective representations and agreements hereinafter contained, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions of Terms. Except as defined below, for all purposes of this Agreement, unless the context clearly requires otherwise, all terms defined in Article I of the Indenture have the same meanings in this Agreement.

“Event of Default” under this Agreement is defined in Section 6.1.

SECTION 1.2 Number and Gender. The singular form of any word used herein, including the terms defined in Section 1.02 of the Indenture, shall include the plural, and vice versa. The use herein of a word of any gender shall include all genders.

SECTION 1.3 Articles, Sections. Unless otherwise specified, references to Articles, Sections and other subdivisions of this Agreement are to the designated Articles, Sections and other subdivisions of this Agreement as originally executed. The words “hereof,” “herein,” “hereunder” and words of similar import refer to this Agreement as a whole. The headings

or titles of the several articles and sections, and the table of contents appended to copies hereof, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the provisions hereof.

ARTICLE II

REPRESENTATIONS

SECTION 2.1 Representations by the Issuer. The Issuer makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Issuer is a political subdivision of the State. Under the provisions of the Act, the Issuer has the power to enter into the transactions contemplated by this Agreement and to carry out its obligations hereunder. By proper action, the Issuer has been duly authorized to execute, deliver and duly perform this Agreement and the Indenture. To the extent the foregoing representation involves a legal conclusion, such representation is made in reliance on the opinion of Bond Counsel.

(b) To finance or refinance part of the Cost of the Project, including the refunding of the Refunded Bonds, the Issuer will issue the Bonds, which will mature, bear interest and be subject to redemption as provided in the Indenture.

(c) The Issuer’s interest in this Agreement (except certain rights of the Issuer to payment of fees and expenses and indemnification, to rights of inspection and to consents and rights to receive any notices, certificates, requests, requisitions and other communications) will be pledged to the Trustee as security for payment of the principal of, and premium, if any, and interest on the Bonds.

(d) The Issuer has not pledged and will not pledge its interest in this Agreement for any purpose other than to secure the Bonds under the Indenture.

(e) The Issuer is not in default under any of the provisions of the laws of the State which default would affect its existence or its powers referred to in subsection (a) of this Section 2.1.

(f) The Issuer has found and determined and hereby finds and determines that all requirements of the Act with respect to the issuance of the Bonds and the execution of this Agreement and the Indenture have been complied with and that financing or refinancing the Project, including the refunding of the Refunded Bonds, by issuing the Bonds and entering into this Agreement and the Indenture is in the public interest, serves the public purposes and meets the requirements of the Act.

(g) On February 4, 2003, the Issuer adopted an initial resolution authorizing the issuance of bonds in an amount not to exceed \$205,000,000 for a variety of purposes, including to finance a portion of the Cost of the New Money Project and to refinance the Prior Project. On March 4, 2003, the Issuer adopted its resolution approving the issuance of the Bonds.

2

(h) No member, officer or other official of the Issuer has any interest whatsoever in the Borrower or in the transactions contemplated by this Agreement.

SECTION 2.2 Representations by the Borrower. The Borrower makes the following representations as the basis for the undertakings on its part herein contained:

(a) The Borrower is a corporation duly incorporated and in good standing in the State of California, is duly qualified to transact business and in good standing in the State, has power to enter into and by proper corporate action has been duly authorized to execute and deliver this Agreement and all other documents contemplated hereby to be executed by the Borrower in connection with the issuance and sale of the Bonds.

(b) Neither the execution and delivery of this Agreement or any other documents contemplated hereby to be executed by the Borrower in connection with the issuance and sale of the Bonds, the consummation of the transactions contemplated hereby, nor the fulfillment of or compliance with the terms and conditions of this Agreement, conflicts with or results in a breach of any of the terms, conditions or provisions of the Borrower's articles of incorporation or by-laws or of any corporate actions or of any agreement or instrument to which the Borrower is now a party or by which it is bound, or constitutes a default (with due notice or the passage of time or both) under any of the foregoing, or result in the creation or imposition of any prohibited lien, charge or encumbrance whatsoever upon any of the property or assets of the Borrower under the terms of any instrument or agreement to which the Borrower is now a party or by which it is bound.

(c) The Cost of the Project is as set forth in the Tax Certificate and has been determined in accordance with sound engineering/construction and accounting principles. All the information provided by, and all the representations made by, the Borrower in the Tax Certificate are true and correct as of the date thereof.

(d) The Project, consisting of the Prior Project and the New Money Project, consists of those facilities described in Exhibit A-1 and Exhibit A-2 to this Agreement and in the Southwest Gas Corporation Engineering Certificate dated the date of issuance of the Bonds (the "Engineering Certificate") which is incorporated by reference herein, and the Borrower shall not make any changes to the Project except as otherwise permitted hereunder or to the operation thereof which would affect the qualification of the Project under the Act or impair the Tax-Exempt status of the Bonds. In particular, the Borrower shall comply with all requirements set forth in the Tax Certificate. The Borrower intends to cause the Project to be used for the local furnishing of natural gas until the principal of, the premium, if any, and the interest on the Bonds shall have been paid.

(e) The Borrower has and will have title to and all necessary easements to install the Project, sufficient to carry out the purposes of this Agreement.

(f) At the time of submission of an application to the Issuer for financial assistance in connection with the Project and on the dates on which the Issuer took action on such application, permanent financing for the Project had not otherwise been obtained or arranged.

3

(g) All certificates, approvals, permits and authorizations with respect to the construction of the Project of agencies of applicable local governments, the State and the federal government have been obtained or will be obtained in the normal course of business.

(h) No event has occurred and no condition exists which would constitute an Event of Default or which with the passing of time or with the giving of notice or both would become such an Event of Default.

(i) To the best of the knowledge of the Borrower, no member, officer, or other official of the Issuer has any interest whatsoever in the Borrower or in the transactions contemplated by this Agreement.

(j) The Borrower has reviewed the Indenture and hereby accepts the terms thereof.

ARTICLE III

THE PROJECT; ISSUANCE OF THE BONDS

SECTION 3.1 The Project. The Borrower has acquired, constructed, equipped, and installed the Prior Project and all other facilities and real and personal property necessary for the operation of the Prior Project substantially in accordance with the Plans and Specifications for the Prior Project. The Borrower agrees that it will acquire, construct, equip, and install, or complete the acquisition, construction, equipping, and installation of the New Money Project and all other facilities and real and personal property necessary for the operation of the New Money Project. The Borrower further agrees that it at all times shall operate the Project as a "project" within the meaning of the Act and so that the Project constitutes Exempt

Facilities. The Borrower agrees to proceed with due diligence to complete the New Money Project within three years from the date hereof.

SECTION 3.2 Agreement to Issue Bonds; Application of Bond Proceeds. In order to provide funds to lend to the Borrower to finance or refinance part of the Cost of the Project as provided in Section 4.1 hereof, the Issuer agrees that it will issue under the Indenture and sell and cause to be delivered to each Initial Purchaser thereof its Series 2003A Bonds, its Series 2003B Bonds, its Series 2003C Bonds, its Series 2003D Bonds and its Series 2003E Bonds in an aggregate principal amount not to exceed \$165,000,000, each bearing interest and maturing as set forth in the Indenture. The Issuer will thereupon deposit the proceeds received from the sale of the Bonds as provided in Section 2.02(e) of the Indenture.

SECTION 3.3 Disbursements from the Construction Fund and the Costs of Issuance Fund. The Borrower will request pursuant to the terms of the Indenture, authorize and direct the Trustee to disburse the moneys in the Construction Fund to or on behalf of the Borrower, upon compliance with Section 6.07 of the Indenture, for the following purposes (but, subject to the provisions of Section 3.4 hereof, for no other purpose):

(a) Payment to the Borrower of such amounts, if any, as shall be necessary to reimburse the Borrower, in full for all advances and payments made by it at any time prior to or after the delivery of the Bonds for expenditures incurred in

4

connection with the preparation of plans and specifications for the New Money Project (including any preliminary study or planning of the New Money Project or any aspect thereof) and the acquisition, construction and installing of the New Money Project.

(b) Payment for labor, services, materials and supplies used or furnished in site improvement and in the acquisition, construction and installing of the New Money Project and miscellaneous expenditures incidental to any of the foregoing items.

(c) Payment of the fees, if any, for architectural, engineering, legal, underwriting and supervisory services with respect to the New Money Project and the Bonds.

(d) Payment of the premiums on all insurance that was required to be acquired and maintained in connection with the New Money Project during the construction period with respect to the New Money Project.

(e) Payment of the taxes, assessments and other charges, if any, that may have become payable during the construction period with respect to the New Money Project.

(f) Payment of expenses incurred in seeking to enforce any remedy against any contractor or subcontractor or any other third party in respect of any default under a contract relating to the New Money Project.

(g) Payment of any other costs which constitute a part of the Cost of the New Money Project in accordance with generally accepted accounting principles, which are permitted by the Act and which will not adversely affect the Tax-Exempt status of the Bonds.

Each of the payments referred to in Sections 3.3(a)-(g) shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 6.07 of the Indenture, signed by the Authorized Borrower Representative.

The Borrower will authorize and direct the Trustee, upon compliance with Section 6.08 of the Indenture, to disburse the moneys in the Costs of Issuance Fund to or on behalf of the Borrower only for Costs of Issuance. Each of the payments referred to in this paragraph shall be made upon receipt by the Trustee of a written requisition in the form prescribed by Section 6.08 of the Indenture.

The Borrower covenants and agrees that at all times at least 97% of the moneys so disbursed out of the Construction Fund will be used to pay or reimburse the Borrower for the payment of qualifying costs of Exempt Facilities as described in the Tax Certificate. The Borrower further covenants and agrees that it will not take any action or authorize or permit, any action to be taken which would adversely affect the Tax-Exempt status of the Bonds.

The Borrower understands that the Tax Certificate may impose additional restrictions on withdrawals from the Construction Fund, and the Borrower agrees to be bound by such restrictions, if any.

5

SECTION 3.4 Investment of Moneys. Any moneys held as a part of the Bond Fund or the Construction Fund or the Costs of Issuance Fund shall be invested or reinvested by the Trustee at the written direction of an Authorized Borrower Representative as to specific investments, to the extent permitted by law, in accordance with Section 7.01 of the Indenture. The Borrower shall not direct the Trustee to make any investments or reinvestments other than those permitted by the Indenture and as permitted by law. In making any such investments, the Trustee may rely on directions delivered to it pursuant to this Section, and the Trustee and the Issuer shall be relieved of all liability with respect to making such investments in accordance with such directions. The Borrower agrees that to the extent any moneys in the Bond Fund represent moneys held for the payment of the principal of Bonds which have become due at maturity or on a redemption date and the premium, if any, on such Bonds or interest due on Bonds in all cases where Bonds have not been presented for payment and paid or such interest is unclaimed, or to the extent any moneys are held by the Trustee for the payment of the purchase price of Bonds which have not been presented for payment, such moneys shall not be invested.

SECTION 3.5 Costs of Issuance. The Borrower covenants and agrees to pay all costs incurred in connection with the issuance of the Bonds, which may be reimbursed or paid out of the proceeds of the Bonds to the extent permitted by the Act, the Code and the Tax Certificate, and the Issuer shall have no obligation with respect to such costs.

SECTION 4.1 Loan of Bond Proceeds. (a) The Issuer agrees, upon the terms and conditions in this Agreement, to lend to the Borrower the proceeds received by the Issuer from the sale of the Bonds in order to finance or refinance a portion of the Cost of the Project. The Issuer's obligation herein shall be solely to deposit the proceeds of the Bonds with the Trustee as provided in Section 3.2 hereof. Upon such deposit, the Issuer will be deemed to have made five loans to the Borrower, one in an amount equal to the principal amount of the Series 2003A Bonds, one in an amount equal to the principal amount of the Series 2003B Bonds, one in an amount equal to the principal amount of the Series 2003C Bonds, one in an amount equal to the principal amount of the Series 2003D Bonds and one in an amount equal to the principal amount of the Series 2003E Bonds.

(b) The Issuer and the Borrower expressly reserve the right to enter into, to the extent permitted by law, an agreement or agreements other than this Agreement, with respect to the issuance by the Issuer, under an indenture or indentures other than the Indenture, of obligations to provide additional funds to pay the Cost of the Project or to refund all or any principal amount of the Bonds (or any portions thereof), or any combination thereof.

SECTION 4.2 Loan Repayments and Other Amounts Payable. (a) On each date provided in or pursuant to the Indenture for the payment of principal (whether at maturity or upon redemption or acceleration) of and/or premium, if any, and/or interest on any Series of Bonds, until the principal of and premium, if any, and interest on the Bonds shall have been fully paid or provision for the payment thereof shall have been made in accordance with the Indenture, the Borrower shall pay to the Trustee in immediately available funds, for deposit in the account within the Bond Fund relating to such

6

Series of Bonds, as a repayment installment of the loan of the proceeds of the Bonds of such Series pursuant to Section 4.1 hereof, a sum equal to the amount payable on such interest payment or redemption or acceleration or maturity date as principal (whether at maturity or upon redemption or acceleration) of and premium, if any, and interest on the Bonds as provided in the Indenture. In the event the Borrower shall fail to make any of the payments required in this subsection, the payment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid.

(b) The Borrower shall pay or cause to be paid to the Trustee amounts equal to the amounts to be paid by the Trustee for the purchase of Bonds which have not been remarketed pursuant to Article IV of the Indenture and the premium, if any, on the Bonds which have been remarketed pursuant to Article IV of the Indenture, in each case as and to the extent provided in the Indenture. Such amounts shall be paid or caused to be paid by the Borrower to the Trustee, acting as Tender Agent (or, for so long as the Bonds are Book-Entry Bonds, to the Securities Depository), in immediately available funds on the dates and no later than the times such payments pursuant to Section 4.05 of the Indenture are to be made. In the event the Borrower shall fail to make (or cause to be made) any of the payments required in this subsection, the payment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid. The obligation of the Borrower to make any payment under this subsection shall be deemed to have been satisfied to the extent of any corresponding payment made by a Bank or a Liquidity Provider to the Trustee under any Letter of Credit or Liquidity Facility.

(c) The Borrower agrees to pay to the Trustee, (i) the reasonable fees, charges and expenses of the Trustee, as Registrar, and as Paying Agent and Tender Agent, as and when the same become due, and (ii) the reasonable fees, charges and expenses of the Trustee, as and when the same become due under the Indenture, including payments under Section 6.4 hereof, and including the annual fee of the Trustee for the services rendered by it and the expenses incurred by it under the Indenture. In the event the Borrower should fail to make any of the payments required in this subsection, the item or installment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid; provided, however, that such failure of payment shall not be deemed an event of default during the period in which the Borrower is in good faith contesting, by appropriate proceedings promptly initiated and diligently conducted, such payment required by this subsection. The provision of this subsection shall survive the retirement of the Bonds and the termination of this Agreement.

(d) The Borrower shall pay to the Issuer upon demand all Administrative Expenses, including payments under Section 6.4 hereof. In the event the Borrower should fail to make any of the payments required in this subsection, the item or installment so in default shall continue as an obligation of the Borrower until the amount in default shall have been fully paid.

(e) The Borrower releases the Issuer and the Trustee from, and covenants and agrees that neither the Issuer nor the Trustee shall be liable for, and covenants and agrees, to the extent permitted by law, to indemnify and hold harmless the Issuer and the Trustee and their directors, officers, employees and agents from and against, any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever arising out of, resulting from or in any way connected with (1) the Project, or the conditions, occupancy, use, possession, conduct or management of,

7

or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or any part thereof (including without limitation any of the foregoing relating to any federal, state or local environmental law, rule or regulation); (2) the issuance of any Bonds or any certifications, covenants or representations made in connection therewith and the carrying out of any of the transactions contemplated by the Bonds and this Agreement; (3) the Trustee's acceptance or administration of the trusts under the Indenture, or the exercise or performance of any of its powers or duties under the Indenture; or (4) any untrue statement or alleged untrue statement of any material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Issuer or any underwriter or placement agent in connection with the sale or remarketing of any Bonds; provided that such indemnity shall not be required for damages that result from willful misconduct (or, as to the Trustee, negligence), including willful misconduct (or, as to the Trustee, negligence) in the provision of any statements or information, on the part of the party seeking such indemnity. The Borrower further covenants and agrees, to the extent permitted by law, to pay or to reimburse the Issuer and the Trustee and their respective officers, employees and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with investigating, defending

against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions, except to the extent that the same arise out of the willful misconduct (or, as to the Trustee, negligence) of the party claiming such payment or reimbursement. The provisions of this Section shall survive the retirement of the Bonds and the expiration of this Agreement.

The indemnified party shall promptly notify the Borrower in writing of any claim or action covered by this indemnity and brought against the indemnified party, or in respect of which indemnity may be sought against the Borrower, setting forth the particulars of such claim or action, and the Borrower will assume the defense thereof, including the employment of counsel satisfactory to the indemnified party and the payment of all expenses. The indemnified party may employ separate counsel in any such action and participate in the defense thereof, and the fees and expenses of such counsel shall be payable by the Borrower.

(f) The Borrower agrees to pay to the Remarketing Agent and the Auction Agent the reasonable fees, charges and expenses of such Remarketing Agent and Auction Agent, and the Issuer shall have no obligation or liability with respect to the payment of any such fees, charges or expenses.

(g) The Borrower agrees to pay any Rebate Requirement (as defined in the Tax Certificate) to the Trustee for deposit in the Rebate Fund.

(h) The Borrower also agrees to pay, (i) as soon as practicable after receipt of request for payment thereof, all expenses required to be paid by the Borrower under the terms of any bond purchase agreement relating to the sale of the Bonds; (ii) at the time of issuance of any Bonds, the Issuer's administrative fee in the amount of \$165,000; and (iii) at the time of issuance of any Bonds, all reasonable expenses of the Issuer related to such Bonds which are not otherwise required to be paid by the Borrower under the terms of this Agreement.

SECTION 4.3 Unconditional Obligation. The obligation of the Borrower to make the payments pursuant to this Agreement and to perform and observe the other agreements on its part contained herein shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Issuer, and during the term of this Agreement, the Borrower shall pay (or cause to be paid) absolutely the payments to be made on account of the loan as prescribed in Section 4.2 and all other payments as prescribed herein, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of and premium, if any, and interest on the Bonds shall have been fully paid, or provisions for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments required hereunder, including payments provided for in Section 4.2 hereof; (ii) will perform and observe all of its other covenants contained in this Agreement; and (iii) except as provided in Article VII hereof, will not terminate this Agreement for any cause, including, without limitation, the occurrence of any act or circumstance that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either of them, or any failure of the Issuer or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with this Agreement or the Indenture, except to the extent permitted by this Agreement.

SECTION 4.4 Payments Pledged and Assigned. It is understood and agreed that all rights to the payment of moneys hereunder (except payments made to the Trustee pursuant to Sections 4.2(c), 4.2(e) 4.2(g), 4.2(h) and 6.4 hereof and payments to be made to the Remarketing Agent and the Auction Agent pursuant to Section 4.2(f) hereof and payments to be made to the Issuer pursuant to Sections 4.2(d), 4.2(e), 4.2(h) and 6.4 hereof and its rights of indemnification and inspection and rights to receive notices, certificates, requests, requisitions or other communications and to give consents hereunder) are pledged and assigned to the Trustee by the Indenture. The Borrower consents to such pledge and assignment. The Issuer hereby directs the Borrower and the Borrower hereby agrees to pay or cause to be paid to the Trustee all said amounts required to be paid by or for the account of the Borrower pursuant to Section 4.2 hereof (except payments to be made directly to the Remarketing Agent and the Auction Agent pursuant to Section 4.2(f) hereof and payments to be made directly to the Issuer pursuant to Sections 4.2(d), 4.2(e), 4.2(h) and 6.4 hereof). The Project will not constitute any part of the security for the Bonds.

SECTION 4.5 Payment of the Bonds and Other Amounts. The Bonds shall be payable from payments made by the Borrower to the Trustee under Section 4.2(a) hereof and/or from amounts received by the Trustee from a draw on a Letter of Credit. Payments of principal of or premium, if any, or interest on the Bonds with moneys in the Bond Fund or earnings on investments made under the provisions of the Indenture shall be credited against the obligation to pay required by Section 4.2(a) hereof. To the extent provided in the Indenture, whenever any Bonds are redeemable in whole or in part at the option of the Borrower, the Trustee, on behalf of the Issuer, shall redeem the same upon the request of the Borrower and such redemption shall constitute payment of amounts required by Section 4.2(a) hereof equal to the redemption price of such Bonds.

Whenever payment or provision therefor has been made in respect of the principal of or premium, if any, or interest on all or any portion of the Bonds in accordance with the Indenture (whether at maturity or upon redemption or acceleration or upon provision for payment in accordance with Article VIII of the Indenture), payments shall be deemed paid to the extent such payment or provision therefor has been made and is considered to be a payment of principal of or premium, if any, or interest on such Bonds. If, pursuant to the terms of the Indenture, such Bonds are thereby deemed paid in full, the Trustee shall notify the Borrower and the Issuer that such payment requirement has been satisfied. Subject to the foregoing, or unless the Borrower is entitled to a credit under this Agreement or the Indenture, all payments shall be in the full amount required by Sections 4.2(a) and (b) hereof.

ARTICLE V

SPECIAL COVENANTS AND AGREEMENTS

SECTION 5.1 Right of Access to the Project and Records. The Borrower agrees that during the term of this Agreement the Issuer, the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times during normal business hours to examine the books and records of the Borrower with respect to the Project and to enter upon the site of the Project to examine and inspect the Project; provided, however, that this right is subject to federal and State laws and regulations applicable to the site of the Project. The rights of access hereby reserved to the Issuer and the Trustee may be exercised only after such agent shall have executed release of liability and secrecy agreements if requested by the Borrower in the form then currently used by the Borrower, and nothing contained in this Section or in any other provision of this Agreement shall be construed to entitle the Issuer or the Trustee to any information or inspection involving the confidential know-how of the Borrower.

SECTION 5.2 Borrower's Maintenance of Its Existence; Assignments.

(a) To the extent permitted by law and its articles of incorporation, the Borrower agrees that during the term of this Agreement it will maintain its corporate existence in good standing and its authorization to do business in the State and will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another Person or permit one or more other Persons to consolidate with or merge into it; provided, however, that the Borrower may, without violating the covenants in this Section, merge into or consolidate with or transfer all or substantially all of its assets to a wholly-owned subsidiary of the Borrower; and provided further that the Borrower may, without violating the covenants in this Section, combine, consolidate with or merge into another Person qualified to do business in one of the states of the United States, or permit one or more other Persons to combine, consolidate with or merge into it, or sell to another Person all or substantially all of its assets, if:

(i) the surviving, resulting or transferee Person, as the case may be (A) assumes and agrees in writing to pay and perform all of the obligations of the Borrower hereunder, unless such obligations are assumed by operation of law, and (B) is qualified to do business in the State;

10

(ii) any existing Bond Insurance, Liquidity Facility or Letter of Credit will remain in full force and effect or will be replaced as provided in Sections 5.13 or 5.14, or 5.16, or the Series of Bonds covered by such existing Bond Insurance, Liquidity Facility or Letter of Credit shall have been redeemed;

(iii) the long-term ratings on the outstanding Bonds, as applicable, shall be no lower than the lower of (1) "Baa3" from Moody's and "BBB-" from S&P, as applicable, or (2) the long-term ratings on the outstanding Bonds immediately prior to the transaction; and

(iv) the short-term ratings on the outstanding Bonds, as applicable, shall be no lower than the lower of (1) "A-1" from Moody's, "P-1" from S&P and "F-1" from Fitch, as applicable, or (2) the short-term ratings on the outstanding Bonds immediately prior to the transaction.

The Borrower agrees to provide the Issuer such information as the Issuer may reasonably request in order to assure compliance with this Section 5.2(a).

Within ten (10) Business Days after the consummation of the merger or other transaction described above, the Borrower shall (except as provided in the next sentence) provide the Issuer, any Bond Insurer, any Bank, any Liquidity Provider and the Trustee with counterpart copies of the merger instruments or other documents constituting the transaction but only to the extent that such documents or instruments are available to the public and not subject to any confidentiality agreement or restriction, and an officer's certificate satisfactory to the Issuer executed by an Authorized Borrower Representative that all of the provisions of this Section 5.2(a) have been complied with. In the case of a (i) merger or consolidation of the Borrower and any wholly-owned subsidiary of the Borrower or (ii) the transfer to any wholly-owned subsidiary of the Borrower of all or substantially all of the assets of the Borrower, the Borrower shall send the Issuer, any Bond Insurer, any Bank, any Liquidity Provider and the Trustee a notice of such merger within ten (10) Business Days after its completion, together with the officer's certificate described in the preceding sentence.

Notwithstanding any other provision of this Section 5.2, the Borrower need not comply with any of the provisions of Section 5.2(a) if, at the time of such merger, combination, sale of assets, dissolution or reorganization, the Bonds will be defeased as provided in Article VIII of the Indenture or redeemed in full as provided in Article III of the Indenture.

(b) The rights and obligations of the Borrower under this Agreement may be assigned and delegated, respectively, by the Borrower to any person in whole or in part, subject, however, to each of the following conditions:

(i) No assignment other than pursuant to subsection (a) of this Section shall relieve the Borrower from primary liability for any of its obligations hereunder, and in the event of any assignment not pursuant to said subsection (a) the Borrower shall continue to remain primarily liable for the payments specified in Section 4.2 hereof and for performance and observance of the other agreements on its part herein provided to be performed and observed by it.

11

(ii) Any assignment from the Borrower shall retain for the Borrower such rights and interests as will permit it to perform its obligations under this Agreement, and any assignee from the Borrower shall assume in writing the obligations of the Borrower hereunder to the extent of the interest assigned, unless such obligations are assumed by operation of law.

(iii) The Borrower shall, within thirty (30) days of each such assignment, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with an instrument of assumption, if required, and an opinion of Counsel satisfactory to the Issuer that the Borrower has complied with the provision of this Section 5.2(b).

(c) In the case of any consolidation, merger or transfer pursuant to subsection (a) hereof or any assignment pursuant to subsection (b) hereof, the Borrower shall cause to be delivered to the Issuer and the Trustee, not later than the

effective date of such consolidation, merger, transfer or assignment, an opinion of Bond Counsel to the effect that such consolidation, merger, transfer or assignment will not, in and of itself, adversely affect the Tax-Exempt status of any Bonds.

SECTION 5.3 Establishment of Completion Date; Obligation of Borrower to Complete. As soon as the New Money Project is completed, the Authorized Borrower Representative, on behalf of the Borrower, shall evidence the Completion Date by providing a certificate to the Trustee and the Issuer stating the Cost of the New Money Project and further stating that (i) the acquisition, equipping and construction of the New Money Project has been completed substantially in accordance with the plans, specifications and work orders therefor, and all labor, services, materials and supplies used in the acquisition, equipping, rehabilitation and construction have been paid or provided for, and (ii) all other facilities necessary in connection with the New Money Project have been acquired, constructed and installed in accordance with the plans and specifications and work orders therefor and all costs and expenses incurred in connection therewith have been paid or provided for. Notwithstanding the foregoing, such certificate may state that it is given without prejudice to any rights of the Borrower against third parties for any claims or for the payment of any amount not then due and payable which exists at the date of such certificate or which may subsequently exist. At the time such certificate is delivered to the Trustee, moneys remaining in the Construction Fund, including any earnings resulting from the investment of such moneys, shall be used as provided in Section 6.07 of the Indenture.

SECTION 5.4 Maintenance and Repair; Taxes; Utility and Other Charges. The Borrower agrees to maintain, to the extent permitted by applicable law and regulation, the Project, or cause the Project to be so maintained, during the term of this Agreement (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Borrower agrees to pay or cause to be paid during the term of this Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and all assessments and charges lawfully made by any

12

governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Borrower shall be obligated to pay only such installments as are required to be paid during the term of this Agreement. The Borrower may, at the Borrower's expense and in the Borrower's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal therefrom unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

The Borrower agrees that it will keep, or cause to be kept, (i) the Project insured against such risks and in such amounts as are consistent with its insurance practices for similar types of facilities (which may include self-insurance), and (ii) insurance against all direct or contingent loss or liability for personal injury, death or property damage occasioned by the operation of the Project, which insurance may include self-insurance and may be a part of the policy or policies of insurance customarily maintained by the Borrower in connection with its general property and liability insurance upon all of the plants and properties operated by it (including such deductibles as may be provided in said policies).

SECTION 5.5 Qualification in Nevada. The Borrower agrees that throughout the term of this Agreement it, or any successor or assignee as permitted by Section 5.2 hereof, will be qualified to do business in the State.

SECTION 5.6 No Warranty by the Issuer. The Issuer makes no warranty, either express or implied, as to the Project or that it will be suitable for the purposes of the Borrower or needs of the Borrower.

SECTION 5.7 Agreement as to Use of the Project. The Issuer and the Borrower agree that the Issuer shall have no interest in the Project.

SECTION 5.8 Notices and Certificates Required to be Delivered to the Trustee. The Borrower hereby agrees to provide the Trustee with the following:

(a) Within one hundred twenty (120) days of the end of the fiscal year of the Borrower, a certificate of an Authorized Borrower Representative to the effect that (i) all payments have been made under this Agreement and that, to the best of such Authorized Borrower Representative's knowledge, no Event of Default or event or condition which with the passage of time or giving of notice or both would constitute an Event of Default has occurred and is continuing and (ii) audited financial statements of the Borrower for such fiscal year;

(b) Upon knowledge of an Event of Default under this Agreement or the Indenture, notice of such Event of Default, such notice to include a description of the nature of such event and what steps are being taken to remedy such Event of Default; and

(c) Prompt written disclosure of any significant change known to the Borrower that occurs which would adversely impact the Trustee's ability to perform its duties under the Indenture, or of any conflicts which may result because of

13

other business dealings between the Trustee and the Borrower (including, without limitation, removal or replacement of the Remarketing Agent, if any).

SECTION 5.9 Borrower to Furnish Notice of Adjustments of Interest Rate Periods. The Borrower is hereby granted the option to designate from time to time changes in Rate Periods (and to rescind such changes) in the manner and to the extent set forth in Section 2.03 of the Indenture. In the event the Borrower elects to exercise any such option, the Borrower agrees that it shall cause notices of adjustments of Rate Periods (or rescissions thereof) to be given to the Issuer, the Trustee, the Liquidity Provider, the Bank, the Remarketing Agent and the Auction Agent in accordance with Section 2.03 of the

Indenture. The exercise of any such option, and all actions in connection therewith, may be taken by the Borrower through agents acting on its behalf, as provided in the Indenture, including without limitation, the Remarketing Agent. In connection with any change in Rate Periods, if the Indenture requires an opinion of Bond Counsel as a condition thereto, the Borrower shall, at its sole expense, cause such opinion to be delivered to the Issuer and the Trustee in accordance with the Indenture.

SECTION 5.10 Information Reporting. The Issuer covenants and agrees that, upon the direction of the Borrower or Bond Counsel, it will mail or cause to be mailed to the Secretary of the Treasury (or his designee as prescribed by regulation, currently the Internal Revenue Service Center, Ogden, UT 84201) a statement setting forth the information required by Section 149(e) of the 1986 Code, which statement shall be in the form of the Information Reporting Statement (Form 8038) of the Internal Revenue Service (or any successor form as may be necessary from time to time with respect to any Bonds).

SECTION 5.11 Tax Covenants; Rebate.

(a) The Borrower covenants that it will not take any action which would adversely affect the Tax-Exempt status of any of the Bonds, and will take, or require to be taken, such acts as may be reasonably within its ability and as may from time to time be required under applicable law or regulation to continue such Tax-Exempt status of such Bonds; and, in furtherance of such covenants, the Borrower agrees to comply with the Tax Certificate and the Engineering Certificate.

(b) The Borrower covenants that it will not take any action or fail to take any action with respect to the Bonds which would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the 1986 Code.

(c) The Borrower covenants that it will not use or permit the use of any property financed with the proceeds of any of the Bonds by any person (other than a state or local governmental unit) in such manner or to such extent as would result in loss of the Tax-Exempt status of any of the Bonds.

(d) The Borrower shall calculate, or cause to be calculated, its rebate liability at such times as are required by Section 148(f) of the 1986 Code and any temporary, proposed or final Regulations as may be applicable to such Bonds from time to time. The Borrower shall provide to the Trustee a copy of each calculation of rebate liability prepared by or on behalf of the Borrower, which documentation shall be made available to the Issuer upon request. The Borrower shall make

any and all payments to the Trustee for deposit in the Rebate Fund, or as otherwise required to be made to the United States Department of the Treasury in connection with any of the Bonds pursuant to Section 148(f) of the 1986 Code.

(e) Notwithstanding any other provisions of this Agreement to the contrary, so long as necessary in order to maintain the Tax-Exempt status of any of the Bonds, the covenants in this Section 5.11 shall survive the payment for such Bonds and the interest thereon, including any payment or defeasance thereof pursuant to Section 8.01 of the Indenture.

SECTION 5.12 Continuing Disclosure. The Borrower shall undertake the continuing disclosure requirements promulgated under S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, if applicable, and the Issuer shall have no liability to the holders of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provision of the Indenture, failure of the Borrower to comply with the requirements of S.E.C. Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered an Event of Default; however, the Trustee, subject to Article X of the Indenture, may (and, at the request of the Remarketing Agent or the holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall) or any Bondholder or beneficial owner of any Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under this Section 5.12.

SECTION 5.13 Liquidity Facility. At the time of initial issuance and delivery of the Bonds, there is no Liquidity Facility in effect with respect to any Series of Bonds. The Borrower may at any time, upon notice to the Issuer, deliver to the Trustee a Liquidity Facility effective at the start of a Rate Period, or at another time consistent with the Indenture, subject to the conditions set forth in this Section 5.13 and in Section 5.15 and to the requirements of the Indenture.

Not less than thirty (30) days prior to the delivery of a Liquidity Facility with respect to a Series of Bonds, the Borrower shall (i) deliver to the Trustee and the Remarketing Agent a written commitment for the delivery of such Liquidity Facility, (ii) inform the Trustee and the Remarketing Agent of the date on which the Liquidity Facility will become effective and (iii) inform the Trustee of the rating expected to apply to such Series of Bonds after the related Liquidity Facility is delivered. On or prior to the date of the delivery of a Liquidity Facility to the Trustee, the Borrower shall cause to be furnished to the Trustee and the Issuer (i) an opinion of Bond Counsel to the effect that the delivery of such Liquidity Facility to the Trustee is authorized under the Indenture and complies with the terms hereof and thereof and will not adversely affect the Tax-Exempt status of the Bonds and (ii) an opinion to the effect that the Liquidity Facility is exempt from registration under the Securities Act of 1933, as amended, and is enforceable in accordance with its terms, except to the extent that enforceability thereof may be limited by bankruptcy, reorganization or similar laws limiting the enforceability of creditors' rights generally and except that no opinion need be expressed as to the availability of any discretionary equitable rights.

SECTION 5.14 Letter of Credit. At the time of their initial issuance and delivery, the Series 2003A Bonds and the Series 2003B Bonds will each be secured by an Initial Letter of Credit. Thereafter, the Borrower may at any time, upon notice to the Issuer,

deliver a Letter of Credit in respect of any Series of Bonds at the start of a Rate Period, or at another time consistent with the Indenture, subject to the conditions set forth in this Section 5.14 and in Section 5.15 and to the requirements of the Indenture.

Not less than thirty (30) days prior to the delivery of a Letter of Credit with respect to a Series of Bonds, the Borrower shall (i) deliver to the Trustee and the Remarketing Agent a written commitment for the delivery of such Letter of Credit, (ii) inform the Trustee and the Remarketing Agent of the date on which the Letter of Credit will become effective and (iii) inform the Trustee of the rating expected to apply to such Series of Bonds after the related Letter of Credit is delivered. On or prior to the date of the delivery of a Letter of Credit to the Trustee, the Borrower shall cause to be furnished to the Trustee and the Issuer (i) an opinion of Bond Counsel to the effect that the delivery of such Letter of Credit to the Trustee is authorized under the Indenture and complies with the terms hereof and thereof and will not adversely affect the Tax-Exempt status the Bonds and (ii) an opinion to the effect that the Letter of Credit is exempt from registration under the Securities Act of 1933, as amended, and is enforceable in accordance with its terms, except to the extent that enforceability thereof may be limited by bankruptcy, reorganization or similar laws limiting the enforceability of creditors' rights generally and except that no opinion need be expressed as to the availability of any discretionary equitable rights.

If a Letter of Credit is already in effect with respect to a Series of Bonds, upon delivery of a new Letter of Credit pursuant to this Section 5.14 with respect to such Series of Bonds, the provider of the new Letter of Credit shall refund to the provider of the existing Letter of Credit the purchase price of all Outstanding Bank Bonds, including any accrued and unpaid interest on such Bank Bonds, calculated as set forth in the Reimbursement Agreement relating to the existing Letter of Credit, unless the Borrower pays such purchase price and interest directly to the Bank.

SECTION 5.15 Requirement to Deliver Letter of Credit or Liquidity Facility Under Certain Circumstances. Unless otherwise authorized by the Issuer, the Borrower must, upon (i) any Expiration Date relating to any Series of Bonds, if the Bonds of such Series will, immediately after such Expiration Date, bear interest at a Daily Rate, a Weekly Rate or a Flexible Rate or (ii) any change in Rate Period to a Daily Rate Period, Weekly Rate Period or Flexible Rate Period, other than a change from a Weekly Rate Period to a Daily Rate Period or from a Daily Rate Period to a Weekly Rate Period, deliver a Letter of Credit or Liquidity Facility conforming with the requirements of Section 5.13 or 5.14, as applicable, together with written evidence from each Rating Agency then rating the Bonds of such Series that, following the delivery of such Letter of Credit or Liquidity Facility, the rating on such Series of Bonds shall not be lower than A-1, P-1 or F-1, as applicable, or the current short-term rating from such Rating Agency will not be reduced or withdrawn.

SECTION 5.16 Bond Insurance. At the time of initial issuance and delivery of the Bonds, there is no Bond Insurance in effect with respect to any Series of Bonds. The Borrower may at any time, upon notice to the Issuer, deliver to the Trustee Bond Insurance effective at the start of a Rate Period, or at another time consistent with the Indenture, subject to the conditions set forth in this Section 5.16 and to the requirements of the Indenture.

16

Not less than thirty (30) days prior to the delivery of any Bond Insurance with respect to a Series of Bonds, the Borrower shall (i) deliver to the Trustee, the Remarketing Agent and the Auction Agent a written commitment for the delivery of such Bond Insurance, (ii) inform the Trustee, the Remarketing Agent and the Auction Agent of the date on which the Bond Insurance will become effective and (iii) inform the Trustee of the rating expected to apply to such Series of Bonds after the related Bond Insurance is delivered. On or prior to the date of the delivery of any Bond Insurance to the Trustee, the Borrower shall cause to be furnished to the Trustee and the Issuer (i) an opinion of Bond Counsel to the effect that the delivery of such Bond Insurance to the Trustee is authorized under the Indenture and complies with the terms hereof and thereof and will not adversely affect the Tax-Exempt status of the Bonds and (ii) an opinion to the effect that the Bond Insurance is exempt from registration under the Securities Act of 1933, as amended, and is enforceable in accordance with its terms, except to the extent that enforceability thereof may be limited by bankruptcy, reorganization or similar laws limiting the enforceability of creditors' rights generally and except that no opinion need be expressed as to the availability of any discretionary equitable rights.

ARTICLE VI

EVENTS OF DEFAULT AND REMEDIES

SECTION 6.1 Events of Default Defined. The following events shall be Events of Default under this Agreement with respect to any Series of Bonds, and the terms "Event of Default" or "Events of Default" shall mean, whenever they are used in this Agreement, any one or more of the following events:

(a) Failure by the Borrower to pay when due any amounts required to be paid under Section 4.2(a) or 4.2(b) hereof with respect to such Series of Bonds; or

(b) Failure by the Borrower to observe and perform any covenant, condition or agreement on its part to be observed or performed in this Agreement, other than as referred to in (a) above, for a period of ninety (90) days after written notice, specifying such failure and requesting that it be remedied and stating that such notice is a "Notice of Default" hereunder, given to the Borrower by the Trustee or to the Borrower and the Trustee by the Issuer, unless the Issuer and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Issuer and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within the applicable period and diligently pursued until the failure is corrected and the fact of such non-correction, corrective action or diligent pursuit is evidenced to the Trustee by a certificate of an Authorized Borrower Representative; or

(c) A proceeding or case shall be commenced, without the application or consent of the Borrower, in any court of competent jurisdiction seeking (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of the Borrower or of all or any substantial part of its assets, or (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or cause shall continue undismissed, or an order, judgment, or

17

decree approving or ordering any of the foregoing shall be entered and shall continue in effect for a period of ninety (90) days; or an order for relief against the Borrower shall be entered against the Borrower in an involuntary case under the

(d) The Borrower shall admit in writing its inability to pay its debts generally as they become due or shall file a petition in voluntary bankruptcy or shall make any general assignment for the benefit of its creditors, or shall consent to the appointment of a receiver or trustee of all or substantially all of its property, or shall commence a voluntary case under the United States Bankruptcy Code (as now or hereafter in effect), or shall file in any court of competent jurisdiction a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, or shall fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under such United States Bankruptcy Code or other applicable law; or

(e) Dissolution or liquidation of the Borrower; provided that the term “dissolution or liquidation of the Borrower” shall not be construed to include the cessation of the corporate existence of the Borrower resulting either from a merger or consolidation of the Borrower into or with another corporation or a dissolution or liquidation of the Borrower following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 5.2 hereof; or

(f) The occurrence of an “Event of Default” under the Indenture (other than an Event of Default described in Section 9.01(e) thereof) with respect to such Series of Bonds; or

(g) Receipt by the Trustee from any Bond Insurer, Bank or Liquidity Provider of notice of the occurrence of an “event of default” relating to the Bond Insurance or under the Reimbursement Agreement or Liquidity Facility with respect to such Series of Bonds.

The foregoing provisions of Section 6.1(b) are subject to the following limitations: If by reason of Force Majeure the Borrower is unable in whole or in part to carry out its agreements on its part herein contained other than the obligations on the part of the Borrower contained in Article IV and Section 6.4 hereof the Borrower shall not be deemed in default during the continuance of such inability. The Borrower agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Borrower from carrying out its agreements; provided that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Borrower and the Borrower shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the sole judgment of the Borrower unfavorable to the Borrower.

SECTION 6.2 Remedies on Default. Subject to the rights of any Bond Insurer or Bank (except in the event of an Insurer Default or Bank Default, respectively), whenever any Event of Default referred to in Section 6.1 hereof shall have occurred and be continuing,

(a) The Trustee may, to the extent and in the manner set forth in Section 9.02 of the Indenture, by notice in writing to the Borrower declare the unpaid indebtedness under Section 4.2(a) hereof with respect to any Series of Bonds to be due and payable immediately, if concurrently with or prior to such notice the unpaid principal amount of the Bonds of such Series shall have been declared to be due and payable, and upon any such declaration the same (being an amount sufficient, together with other moneys available therefor in the Bond Fund, to pay the unpaid principal of and premium, if any, and interest accrued on the Bonds of such Series) shall become and shall be immediately due and payable as liquidated damages.

(b) The Issuer or the Trustee may take whatever action at law or in equity may appear necessary or desirable to collect the payments and other amounts then due and thereafter to become due hereunder or to enforce performance and observance of any obligation, agreement or covenant of the Borrower hereunder; provided, however, that nothing in Section 4.4 hereof shall be deemed to limit the rights of the Issuer under this Section 6.2(b); provided, nevertheless, that the Issuer will not exercise any remedies, with respect to any of the Issuer’s rights assigned to the Trustee pursuant to Section 4.4 hereof unless, in the Issuer’s reasonable judgment and after written request to a Responsible Officer of the Trustee, the Trustee has failed to enforce such rights. The Issuer has no obligation to take any action under this Section.

(c) Upon the occurrence of an Event of Default described in Section 6.1(a) hereof with respect to any Series of Bonds, the Trustee shall immediately draw upon any Bond Insurance, Liquidity Facility or Letter of Credit with respect to such Series of Bonds, if permitted by the terms thereof and required by the terms of the Indenture, and apply the amount so drawn in accordance with the Indenture and may exercise any remedy available to it thereunder.

The provisions of clause (a) of the preceding paragraph are subject to the condition that if, at any time after the unpaid indebtedness under Section 4.2(a) hereof with respect to any Series of Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds of such Series matured prior to such declaration and all matured installments of interest (if any) upon all the Bonds of such Series, with interest on such overdue installments of principal as provided herein, and the reasonable expenses of the Trustee and the Issuer, and any and all other defaults known to the Trustee (other than in the payment of principal of and interest on the Bonds of such Series due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall, on behalf of the Owners of all the Bonds of such Series, with the consent of the Bank or the Bond Insurer with respect to such Series of Bonds (except in the event of a Bank Default or Insurer Default with respect to such Series of Bonds), rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

In case the Trustee or the Issuer, as the case may be, shall have proceeded to enforce its rights under this Agreement, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Issuer, then, and in every such case, the Borrower, the Trustee and the Issuer shall be restored respectively

to their several positions and rights hereunder, and all rights, remedies and powers of the Borrower, the Trustee and the Issuer shall continue as though no such action had been taken.

Any amounts collected pursuant to action taken under this Section 6.2 shall be paid into the Bond Fund (unless otherwise provided in this Agreement) and applied in accordance with the provisions of the Indenture. No action taken pursuant to this Section 6.2 shall relieve the Borrower from the Borrower's obligations pursuant to Section 4.2 hereof.

No recourse shall be had for any claim based on this Agreement against any officer, director or shareholder, past, present or future, of the Borrower as such, either directly or through the Borrower, under any constitutional provision, statute or rule of law, or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise.

Nothing herein contained, including, without limitation, the last two paragraphs of this Section 6.2, shall be construed to prevent the Issuer from enforcing directly any of its rights under Section 5.1 hereof and under Sections 4.2(d), 4.2(e), 4.2(h) and 6.4 hereof.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to this Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its reasonable charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized to make such payments to the Trustee, and to pay to the Trustee any amount due if for reasonable compensation and expenses, including reasonable expenses and fees of counsel incurred by it up to the date of such distribution.

Anything in this Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default with respect to any Series of Bonds supported by Bond Insurance, except in the event of an Insurer Default applicable to a particular Bond Insurer, the Bond Insurer providing Bond Insurance in respect of such Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Issuer, the Bondholders or the Trustee in respect of such Series of Bonds for the benefit of the Bondholders hereunder covered by such Bond Insurance, including, without limitation: (i) the right to accelerate the payment, in the manner described in subsection (a) of this Section 6.2, of that portion of the Borrower's indebtedness hereunder attributable to such Series of Bonds and

20

(ii) the right to annul any declaration of acceleration relating to the Borrower's indebtedness hereunder attributable to such Series of Bonds, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default hereunder in respect of such Series of Bonds.

Anything in this Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default with respect to any Series of Bonds supported by a Letter of Credit, except in the event of a Bank Default applicable to a particular Bank, the Bank providing the Letter of Credit in respect of such Series of Bonds shall be entitled to control and direct the enforcement of all rights and remedies granted to the Issuer, the Bondholders or the Trustee in respect of such Series of Bonds for the benefit of the Bondholders hereunder covered by such Letter of Credit, including, without limitation: (i) the right to accelerate the payment, in the manner described in subsection (a) of this Section 6.2, of that portion of the Borrower's indebtedness hereunder attributable to such Series of Bonds and (ii) the right to annul any declaration of acceleration relating to the Borrower's indebtedness hereunder attributable to such Series of Bonds, and the Bank shall also be entitled to approve all waivers of Events of Default hereunder in respect of such Series of Bonds.

SECTION 6.3 No Remedy Exclusive. No remedy herein conferred upon or reserved to the Issuer or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. Such rights and remedies as are given the Issuer hereunder shall also extend to the Trustee and the Owners of the Bonds, subject to the provisions of the Indenture, and the Trustee and Owners of the Bonds shall be entitled to the benefit of all covenants and agreements herein contained.

SECTION 6.4 Agreement to Pay Fees and Expenses of Counsel. In the event the Borrower should default under any of the provisions of this Agreement and the Issuer or the Trustee should employ Counsel or incur other expenses for the collection of the indebtedness hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower herein contained, the Borrower agrees that it will on demand therefor pay to the Trustee, the Issuer or, if so directed by the Issuer, to the Counsel for the Issuer, the reasonable fees of such Counsel and such other reasonable expenses so incurred by or on behalf of the Issuer or the Trustee. If the circumstances set forth in this Section 6.4 shall occur with the result that the Borrower is obligated to make payments to the Trustee under this Section 6.4, and so long as such obligation shall be continuing, in order to secure such obligation of the Borrower to the Trustee, the Trustee shall have a lien prior to the Bonds on all moneys held by the Trustee under the Indenture except those moneys held in trust to pay the principal of and premium, if any, and interest on, or the purchase price of, particular Bonds and except for moneys, if any, in the Rebate Fund. If the Trustee incurs fees and expenses in connection with a default specified in Section 6.1(c), 6.1(d) or 6.1(e) of this Agreement, such fees and expenses are understood to include expenses of administration under any bankruptcy law.

21

SECTION 6.5 No Additional Waiver Implied by One Waiver; Consents to Waivers. In the event any agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. No waiver shall be effective unless in writing and signed by the party making the waiver. The Issuer shall have no power to waive any default hereunder by the Borrower without the consent of the Trustee. The Trustee shall have power to waive any default by the Borrower hereunder, except a default under Sections 4.2(d), 4.2(e), 4.2(h) or 6.4, without the prior written concurrence of the Issuer.

ARTICLE VII

OPTION AND OBLIGATION OF BORROWER TO PREPAY

SECTION 7.1 Option to Prepay. The Borrower shall have, and is hereby granted, the option to prepay the payments due hereunder in whole or in part at any time or from time to time (a) to provide for the redemption of the Bonds pursuant to the provisions of Section 3.01(A) of the Indenture or (b) to provide for the defeasance of the Bonds pursuant to Article VIII of the Indenture. In the event the Borrower elects to provide for the redemption of Bonds as permitted by this Section, the Borrower shall notify and instruct the Trustee in accordance with Section 7.3 hereof to redeem all or any portion of the Bonds in advance of maturity.

SECTION 7.2 Obligation to Prepay. The Borrower shall be obligated to prepay amounts due hereunder, in whole or in part, to provide for the redemption of Bonds in whole or in part pursuant to the provisions of Section 3.01(B) of the Indenture. In the case of any of the events stated in Section 3.01(B) of the Indenture, the Borrower must satisfy its obligation by prepaying within 180 days after such event.

SECTION 7.3 Notice of Prepayment; Amount to be Prepaid. (a) In order to exercise the option granted to the Borrower in Section 7.1 hereof, or fulfill an obligation described in Section 7.2 hereof, the Borrower shall give at least 30 days written notice of such prepayment to the Issuer, the Trustee, the Auction Agent and the Remarketing Agent. On the date fixed for redemption of the Bonds or portions thereof, there shall be deposited with the Trustee from payments by the Borrower as required by Section 7.1 or 7.2, as appropriate, for payment into the Bond Fund the amount required in subsection (b) of this Section. The notice shall provide for the date of the application of the prepayment made by the Borrower hereunder to the redemption of the Bonds or portions thereof in whole or in part pursuant to call for redemption, shall specify the redemption date and shall be given to the Trustee, the Issuer, the Auction Agent and the Remarketing Agent in accordance with the provisions of the Indenture for the redemption of Bonds or portions thereof.

(b) The prepayment payable by the Borrower hereunder upon either (i) the exercise of the option granted to the Borrower in Section 7.1 hereof, or (ii) the fulfillment of an obligation specified in Section 7.2 shall be, to the extent applicable and except as otherwise provided in Article VIII of the Indenture, the sum of the following:

(1) the amount of money which, when added to the amount on deposit in the Bond Fund prior to the prepayment being made and available for such purpose, will be sufficient to provide all funds necessary to

22

redeem the Bonds or portions thereof designated in the notice specified in subsection (a) of this Section to be redeemed on the date set forth in the notice, including, without limitation, principal, premium, if any, and all interest to accrue to said redemption date and redemption expenses; plus

(2) in the event all of the Bonds are to be redeemed, an amount of money equal to all Administrative Expenses and the Trustee's, Auction Agent's and Remarketing Agent's fees and expenses under the Indenture accrued and to accrue until the final payment and redemption of the Bonds.

(c) Any prepayment made pursuant to Section 7.1 or 7.2 hereof shall be deposited into the Bond Fund. No prepayment or investment of the proceeds thereof shall be made which shall cause any Bonds to be "arbitrage bonds" within the meaning of Section 148(a) of the Code.

SECTION 7.4 Cancellation at Expiration of Term. At the acceleration, termination or expiration of the term of this Agreement and following full payment of the Bonds or provision for payment thereof and of all other fees and charges having been made in accordance with the provisions of this Agreement and the Indenture, the Issuer shall deliver to the Borrower any documents and take or cause the Trustee to take such actions as may be necessary to effectuate the cancellation and evidence the termination of this Agreement.

ARTICLE VIII

NON-LIABILITY OF ISSUER

SECTION 8.1 Non-Liability of the Issuer. The Issuer shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from Revenues or the proceeds of Bond Insurance, and shall not be obligated to pay the purchase price of any Bonds, except from the proceeds of the remarketing of the Bonds or from moneys paid or caused to be paid by the Borrower pursuant to Section 4.2(b) hereof. The Borrower hereby acknowledges that the Issuer's sole source of moneys to repay the Bonds will be provided by the payments made or caused to be made by the Borrower pursuant to this Agreement, together with other Revenues and the proceeds of Bond Insurance, including investment income on certain funds and accounts held by the Trustee under the Indenture, and hereby agrees that if the payments to be made hereunder shall ever prove insufficient to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the Borrower shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal, premium or interest.

ARTICLE IX

MISCELLANEOUS

SECTION 9.1 Notices. All notices, certificates or other communications shall be sufficiently given in writing and shall be deemed given on the day on which the same have been mailed by certified mail, postage prepaid, or by qualified

23

overnight courier service, courier charges prepaid, addressed as set forth in Section 13.06 of the Indenture. A duplicate copy of each notice, certificate or other communication given hereunder by either the Issuer or the Borrower to the other shall also be given to the Trustee. The Issuer, the Borrower, the Trustee, the Bond Insurer, the Liquidity Provider, the Bank, the Remarketing Agent and the Auction Agent may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

SECTION 9.2 Assignments. This Agreement may not be assigned by either party without consent of the other, except that (i) the Issuer shall assign to the Trustee its rights under this Agreement (except under Sections 4.2(d), 4.2(e), 4.2(h) and 6.4 hereof and rights of the Issuer to make inspections or to receive any notices, certificates, requests, requisitions or communications hereunder and to give consent hereunder) as provided by Section 4.4 hereof, and (ii) the Borrower may assign its rights under this Agreement as provided by Section 5.2 hereof.

SECTION 9.3 Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be illegal, inoperative or unenforceable, the same shall not affect any other provision or provisions herein contained or render the same invalid, inoperative, or unenforceable to any extent whatever.

SECTION 9.4 Execution of Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument; provided, however, that for purposes of perfecting a security interest in this Agreement by the Trustee, only the counterpart delivered, pledged and assigned to the Trustee shall be deemed the original.

SECTION 9.5 Amounts Remaining in Bond Fund. It is agreed by the parties hereto that after payment in full of (i) the Bonds (or provision for payment thereof having been made in accordance with the provisions of the Indenture), (ii) the fees, charges and expenses of the Trustee in accordance with the Indenture, (iii) the Administrative Expenses of the Issuer, (iv) the fees and expenses of the Auction Agent and the Remarketing Agent, and (v) all other amounts required to be paid under this Agreement and the Indenture, any amounts remaining in the Bond Fund shall belong to and be paid to the Borrower by the Trustee. Notwithstanding any other provision of this Agreement or the Indenture, under no circumstances shall proceeds of Bond Insurance, a Liquidity Facility or a Letter of Credit be paid to the Issuer or the Borrower.

SECTION 9.6 Amendments, Changes and Modifications. This Agreement may be amended, changed, modified, altered or terminated only by written instrument executed by the Issuer and the Borrower and in accordance with Article XII of the Indenture.

SECTION 9.7 Governing Law. This Agreement shall be governed exclusively by and construed in accordance with the applicable laws of the State.

SECTION 9.8 Authorized Issuer and Borrower Representatives. Whenever under the provisions of this Agreement the approval of the Issuer or the Borrower is required to take some action at the request of the other, such approval or such request shall be given for the Issuer by the Authorized Issuer Representative and for the Borrower by the Authorized

24

Borrower Representative, and the other party hereto and the Trustee shall be authorized to act on any such approval or request and neither party hereto shall have any complaint against the other or against the Trustee as a result of any such action taken.

SECTION 9.9 Term of the Agreement. This Agreement shall be in full force and effect from its date to and including such date as all of the Bonds issued under the Indenture shall have been fully paid or retired (or provision for such payment shall have been made as provided in the Indenture) and all other fees and expenses shall have been paid pursuant to this Agreement or the Indenture, provided that all representations and certifications by the Borrower as to all matters affecting the Tax-Exempt status of interest on any Bonds and the covenants of the Borrower in Sections 4.2(c), 4.2(d), 4.2(e), 4.2(h), 5.11 and 6.4 hereof shall survive the termination of this Agreement.

SECTION 9.10 Binding Effect. This Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Borrower and their respective successors and assigns, subject, however, to the limitations contained in Section 5.2 hereof.

SECTION 9.11 Trustee as a Party in Interest and Third Party Beneficiary. The parties hereto acknowledge and agree that as to any right to indemnity or payment of fees and expenses provided in Section 4.2 hereof the Trustee is a party in interest and third party beneficiary under this Agreement entitled to enforce its rights as so stated herein as if it were a party hereto.

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25

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

CLARK COUNTY, NEVADA

(SEAL)

Attest:

/s/ SHIRLEY B. PARRAGUIRRE
County Clerk

SOUTHWEST GAS CORPORATION

By: /s/ EDWARD A. JANOV
Authorized Borrower Representative

26

EXHIBIT A-1

DESCRIPTION OF THE PRIOR PROJECT

[attached]

A-1-1

DESCRIPTION OF THE FACILITIES

Description of the Existing Facilities

The Existing Facilities consist of (1) meters, customer service connections, mains, pressure regulators and other lower pressure gas distribution facilities (generally having a maximum allowable operating pressure of less than [400] psig) by which the Company furnishes gas to customers located within its retail service area in Clark County, Nevada, together with other plant, property and equipment acquired, installed or constructed in connection therewith; (2) mains, pressure regulators, compressor facilities and other higher pressure gas transmission facilities (generally having a maximum allowable operating pressure of [400] psig and over) by which the Company transports gas to and within its retail customer service area in Clark County, Nevada, together with other plant, property and equipment acquired, installed or constructed in connection therewith; (3) an operations center complex, and related facilities, equipment and improvements in Clark County, Nevada; and (4) associated land and land-rights.

Description of the Project

The Project shall consist of those certain additions and improvements to the Company's natural gas distribution and transmission system through which the Company furnishes natural gas to its customers in Clark County, and certain other plant, property and equipment used or to be used for the same purposes.

A-1

EXHIBIT A-2

DESCRIPTION OF THE NEW MONEY PROJECT

The New Money Project will be undertaken in the Southern Nevada Division in Clark County and will consist of certain additions and improvements to, and replacements of, the Borrower's natural gas distribution and transmission system

through which the Borrower furnishes natural gas to its customers in Clark County, Nevada, and certain other plant, property and equipment used or to be used for the same purposes, including meters, customer service connections, mains and pressure regulators.

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

	For the Twelve Months Ended					
	Sep 30,	December 31,				
	2003	2002	2001	2000	1999	1998
1. Fixed charges:						
A) Interest expense	\$ 78,563	\$ 79,586	\$ 80,139	\$ 70,659	\$ 63,110	\$ 63,416
B) Amortization	2,675	2,278	1,886	1,564	1,366	1,243
C) Interest portion of rentals	7,316	8,846	9,346	8,572	8,217	7,531
D) Preferred securities distributions	5,384	5,475	5,475	5,475	5,475	5,475
Total fixed charges	<u>\$ 93,938</u>	<u>\$ 96,185</u>	<u>\$ 96,846</u>	<u>\$ 86,270</u>	<u>\$ 78,168</u>	<u>\$ 77,665</u>
2. Earnings (as defined):						
E) Pretax income from continuing operations	\$ 60,612	\$ 65,382	\$ 56,741	\$ 51,939	\$ 60,955	\$ 83,951
Fixed Charges (1. above)	93,938	96,185	96,846	86,270	78,168	77,665
Total earnings as defined	<u>\$154,550</u>	<u>\$161,567</u>	<u>\$153,587</u>	<u>\$138,209</u>	<u>\$139,123</u>	<u>\$161,616</u>
	<u>1.65</u>	<u>1.68</u>	<u>1.59</u>	<u>1.60</u>	<u>1.78</u>	<u>2.08</u>

Certification on Form 10-Q

I, Michael O. Maffie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2003

/s/ Michael O. Maffie
Michael O. Maffie
Chief Executive Officer
Southwest Gas Corporation

Certification on Form 10-Q

I, George C. Biehl, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2003

/s/ George C. Biehl
George C. Biehl
Executive Vice President, Chief Financial Officer
and Corporate Secretary
Southwest Gas Corporation

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Michael O. Maffie, the Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 10, 2003

/s/ Michael O. Maffie

Michael O. Maffie
Chief Executive Officer

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, George C. Biehl, Executive Vice President, Chief Financial Officer and Corporate Secretary of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 10, 2003

/s/ George C. Biehl

George C. Biehl
Executive Vice President, Chief Financial Officer
and Corporate Secretary
