

2015 First Quarter Earnings Conference Call May 7, 2015



SOUTHWEST GAS

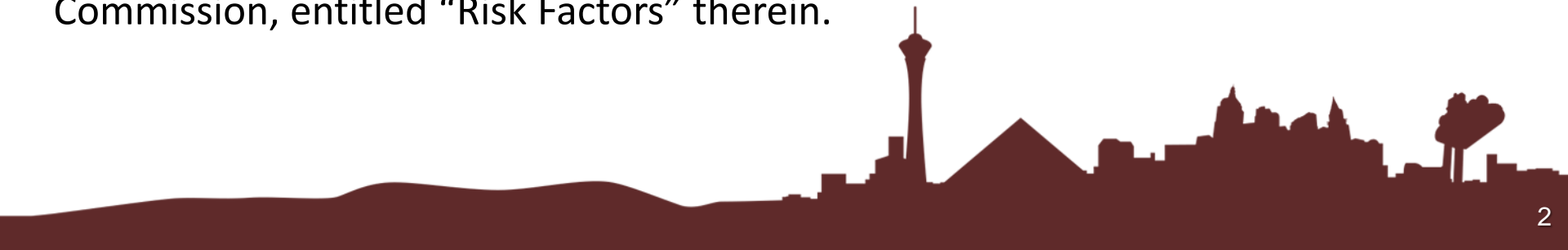


Safe Harbor Statement



SOUTHWEST GAS

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



2015 First Quarter Highlights



Consolidated net income of \$72 million for the quarter

Natural Gas Operations

- Operating margin increased \$4 million, or 1%, compared to prior year quarter
- Added 26,000 net new customers over the past twelve months
- Planned capital expenditures to improve safety and reliability under associated tracker mechanisms continues to be a focus

Construction Services

- Integration of Link-Line Group of Companies on track
- \$6.9 million quarter loss includes ordinary seasonal factors as well as a loss reserve for a short duration industrial construction project in Canada



Call Outline



- I. Consolidated earnings – March 31, 2015
- II. Natural gas segment
- III. Centuri Construction Group
- IV. Regulation
- V. Capital expenditures
- VI. 2015 outlook update



Summary Operating Results

(In thousands, except per share amounts)



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	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	2015	2014	2015	2014
Results of Consolidated Operations				
Gas operations income	\$ 78,921	\$ 72,599	\$ 123,194	\$ 117,476
Construction services income (loss)	(6,938)	(1,816)	19,132	17,854
Net income	<u>\$ 71,983</u>	<u>\$ 70,783</u>	<u>\$ 142,326</u>	<u>\$ 135,330</u>
Basic earnings per share	<u>\$ 1.54</u>	<u>\$ 1.52</u>	<u>\$ 3.06</u>	<u>\$ 2.92</u>
Diluted earnings per share	<u>\$ 1.53</u>	<u>\$ 1.51</u>	<u>\$ 3.03</u>	<u>\$ 2.89</u>
Ave. shares outstanding	46,612	46,440	46,537	46,364
Ave. shares outstanding (assuming dilution)	47,036	46,871	46,986	46,812



Summary Operating Results

Natural Gas Operations

(In thousands)



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Results of Natural Gas Operations

THREE MONTHS ENDED MARCH 31,		
	2015	2014
Gas operating revenues	\$ 553,115	\$ 486,493
Net cost of gas sold	253,762	191,377
Operating margin	299,353	295,116
Operations and maintenance expense	95,510	102,408
Depreciation and amortization	53,675	51,483
Taxes other than income taxes	12,997	11,456
Operating income	137,171	129,769
Other income	2,602	1,612
Net interest deductions	16,096	17,227
Income before income taxes	123,677	114,154
Income tax expense	44,756	41,555
Net income - gas operations	\$ 78,921	\$ 72,599



Three Months Ended March 31, 2015



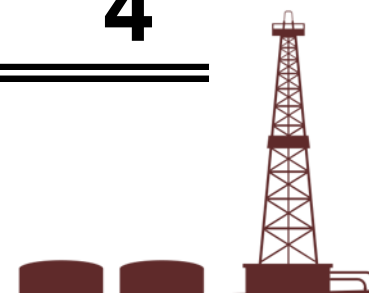
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Increase in Operating Margin

Natural Gas Operations

(In millions)

Customer growth	\$	3
Rate relief (CA, Paiute)		2
Other		(1)
Increase	\$	4



Three Months Ended March 31, 2015

Operating Expenses and Net Financing Costs

Natural Gas Operations



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Operating expenses decreased by \$3.2 million

- O&M expense decreased 6.7%
 - Legal expenses in the prior period were higher than normal exceeding the current quarter by approximately \$6 million
 - The prior period included \$500,000 in rent expense associated with the corporate headquarters complex subsequently purchased by the Company in July 2014
- Depreciation and amortization expense increased 4%
 - Average gas plant in service increased \$285 million

Net financing cost decreased by \$1.1 million due primarily to the redemption of \$65 million 5.25% Series A Industrial Development Revenue Bonds in November 2014



Summary Operating Results

Natural Gas Operations

(In thousands)



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TWELVE MONTHS ENDED MARCH 31,

2015

2014

Results of Natural Gas Operations

Gas operating revenues	\$ 1,448,709	\$ 1,293,047
Net cost of gas sold	567,741	426,770
Operating margin	880,968	866,277
Operations and maintenance expense	376,834	390,235
Depreciation and amortization	206,336	197,012
Taxes other than income taxes	48,793	45,212
Operating income	249,005	233,818
Other income	8,155	9,810
Net interest deductions	67,168	64,104
Income before income taxes	189,992	179,524
Income tax expense	66,798	62,048
Net income - gas operations	\$ 123,194	\$ 117,476



Twelve Months Ended March 31, 2015

Natural Gas Operations



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- Operating income increased \$15.2 million between periods due to growth in operating margin and flat operating costs
 - Operating margin increased \$15 million including combined rate relief of \$10 million in the California jurisdiction and Paiute Pipeline Company
 - Legal expenses in the prior period (including a \$5 million legal accrual in the first quarter of 2014) were \$6.8 million higher than the current period
- Net interest costs increased \$3.1 million primarily due to increased borrowings on the credit facility and the issuance of \$250 million of long-term debt in the fourth quarter of 2013
 - Increase mitigated by higher interest expense in the prior period associated with PGA balances and by the redemption of \$65 million of 5.25% 2004 Series A IDRBs in November 2014



Summary Operating Results

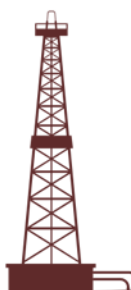
Construction Services

(In thousands)



THREE MONTHS ENDED MARCH 31,

	2015	2014
Construction revenues	\$ 181,105	\$ 121,903
Construction expenses	174,928	113,199
Depreciation and amortization	13,792	11,408
Operating income (loss)	(7,615)	(2,704)
Other income (deductions)	(330)	-
Net interest deductions	1,881	292
Income taxes	(2,784)	(1,094)
Noncontrolling interests	(104)	(86)
Net income (loss)	\$ (6,938)	\$ (1,816)

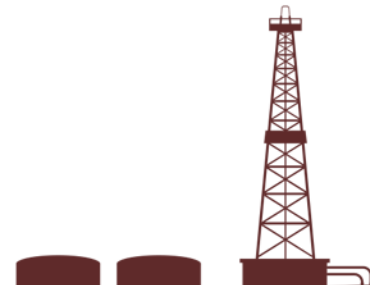


Three Months Ended March 31, 2015

Construction Services



- Revenues increased \$59.2 million
 - Revenues of recently acquired companies (\$42.3 million) and additional pipe replacement work at NPL
- Construction expenses increased \$61.7 million
 - Costs associated with the acquired companies (\$49 million), including a \$5.6 million loss reserve for an industrial construction project in Canada
 - Additional pipe replacement work, as noted above
- Depreciation & amortization increased \$2.4 million
 - Amortization of finite-lived intangible assets recognized from the acquisition (\$1.3 million)
 - Additional equipment purchases



Summary Operating Results

Construction Services

(In thousands)



TWELVE MONTHS ENDED MARCH 31,

	<u>2015</u>	<u>2014</u>
Construction revenues	\$ 798,822	\$ 652,626
Construction expenses	709,586	579,795
Depreciation and amortization	<u>51,267</u>	<u>43,763</u>
Operating income	37,969	29,068
Net interest deductions	5,359	1,237
Income taxes	13,086	10,444
Other	(392)	467
Net income	<u><u>\$ 19,132</u></u>	<u><u>\$ 17,854</u></u>



Twelve Months Ended March 31, 2015

Construction Services



- Revenues increased \$146 million
 - Additional pipe replacement work
 - Inclusion of the acquired companies beginning fourth quarter 2014 (\$96.5 million)
- Construction expenses increased \$130 million primarily due to additional pipe replacement work at NPL and construction costs associated with the acquired companies (\$98.4 million)
 - General & Administrative expense increased \$13.2 million due primarily to recently acquired companies, acquisition costs, and changes implemented to match increased size and complexity of business
- Depreciation expense increased \$7.5 million
 - Amortization of finite-lived intangible assets recognized from acquisition (\$2.9 million)
 - Additional equipment purchased to support growth and volume of work being performed





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Regulation

Natural Gas Operations

- California attrition
- Infrastructure replacement mechanisms
 - Nevada Gas Infrastructure Recovery (GIR) Mechanism
 - Arizona Customer Owned Yard Line (COYL) Mechanism
 - California Infrastructure Reliability and Replacement Adjustment Mechanism (COYL program)
- LNG facility in Arizona
- Elko expansion project - Paiute Pipeline Company (FERC)
- Next Arizona general rate case



2015 Capital Expenditures

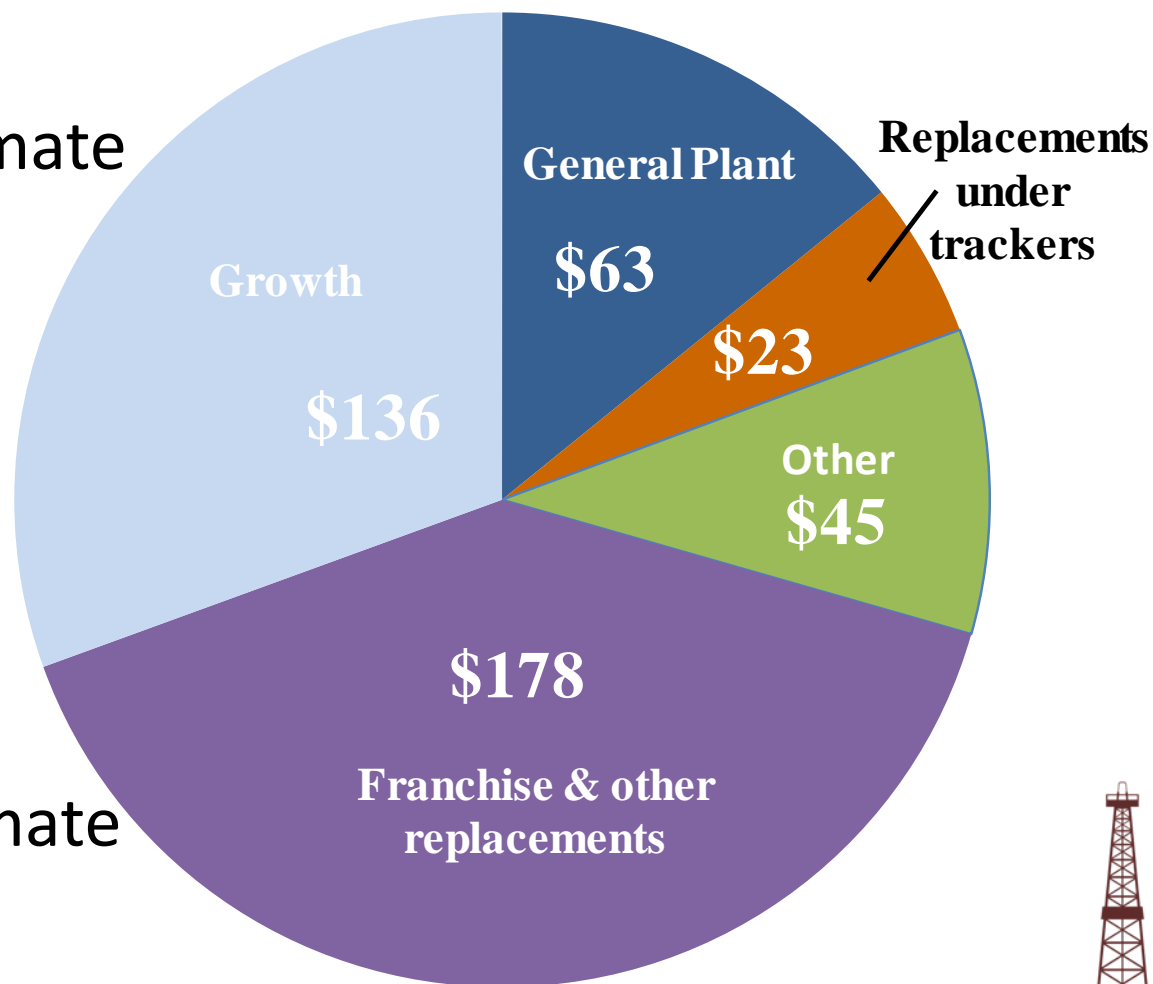
Natural Gas Operations

(In millions)



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- 2015 total estimate
 - \$445 million



- 2015-2017 estimate
 - \$1.3 billion



2015 Expectations

Construction Services



- Strong emphasis on integration efforts
- Revenues expected to range between \$950 million and \$1 billion
- Operating income to approximate 6% of revenues
- Net interest deductions to be between \$6.5 million and \$7.5 million
- Collective expectations are before consideration of noncontrolling interest of 3.4%
- Foreign exchange rate and interest rate environment could influence their achievement

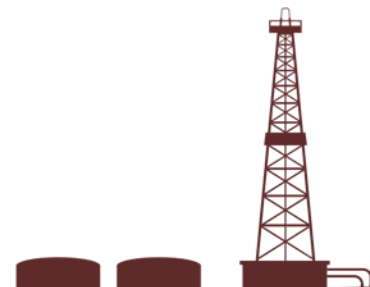


2015 Expectations

Natural Gas Operations



- Net customer growth of 1.5%
- Operating margin is estimated to increase nearly 2%
- Operating costs increase assumption of 3% – 4%
- Includes net pension expense increase of \$8 million reflecting updated mortality tables
- Net interest deductions for 2015 will approximate or be lower than 2014 results
- Average normal annual COLI returns of \$3 million – \$5 million
- Capital expenditures of \$445 million reflecting pipe replacement activity, customer growth and expansion projects





APPENDIX



Two Business Segments

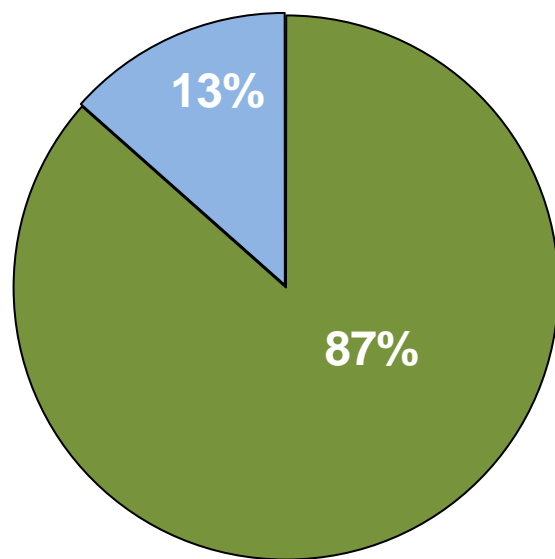


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Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

TMTD 3/31/15 Net Income
\$142MM



- **Natural gas operations**
\$123MM net income
- **Construction services**
\$19MM net income



Stable Customer Base

Natural Gas Operations



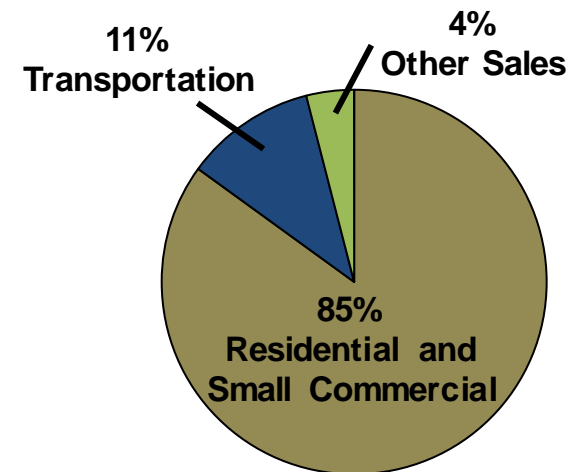
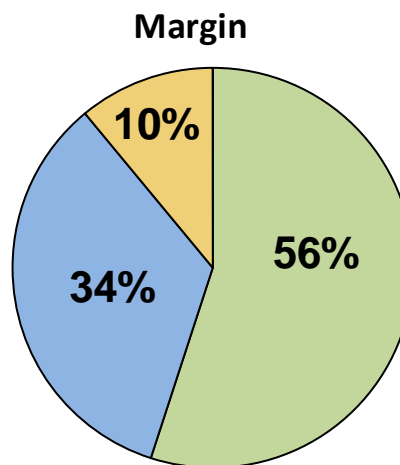
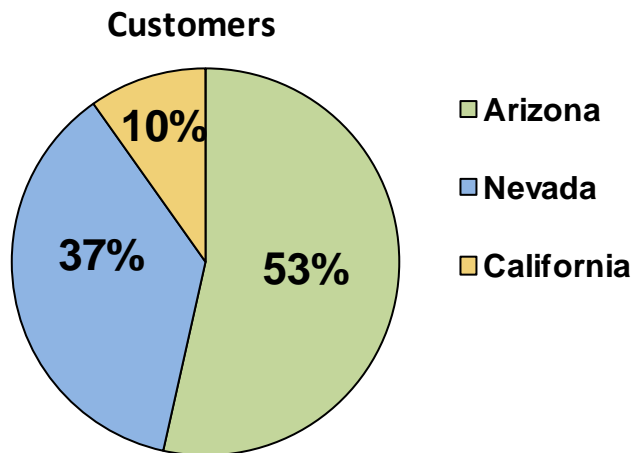
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TMTD March 31, 2015 Customer & Operating Margin Distribution

Margin by Customer

By State

Class



➤ Consistent trends year over year

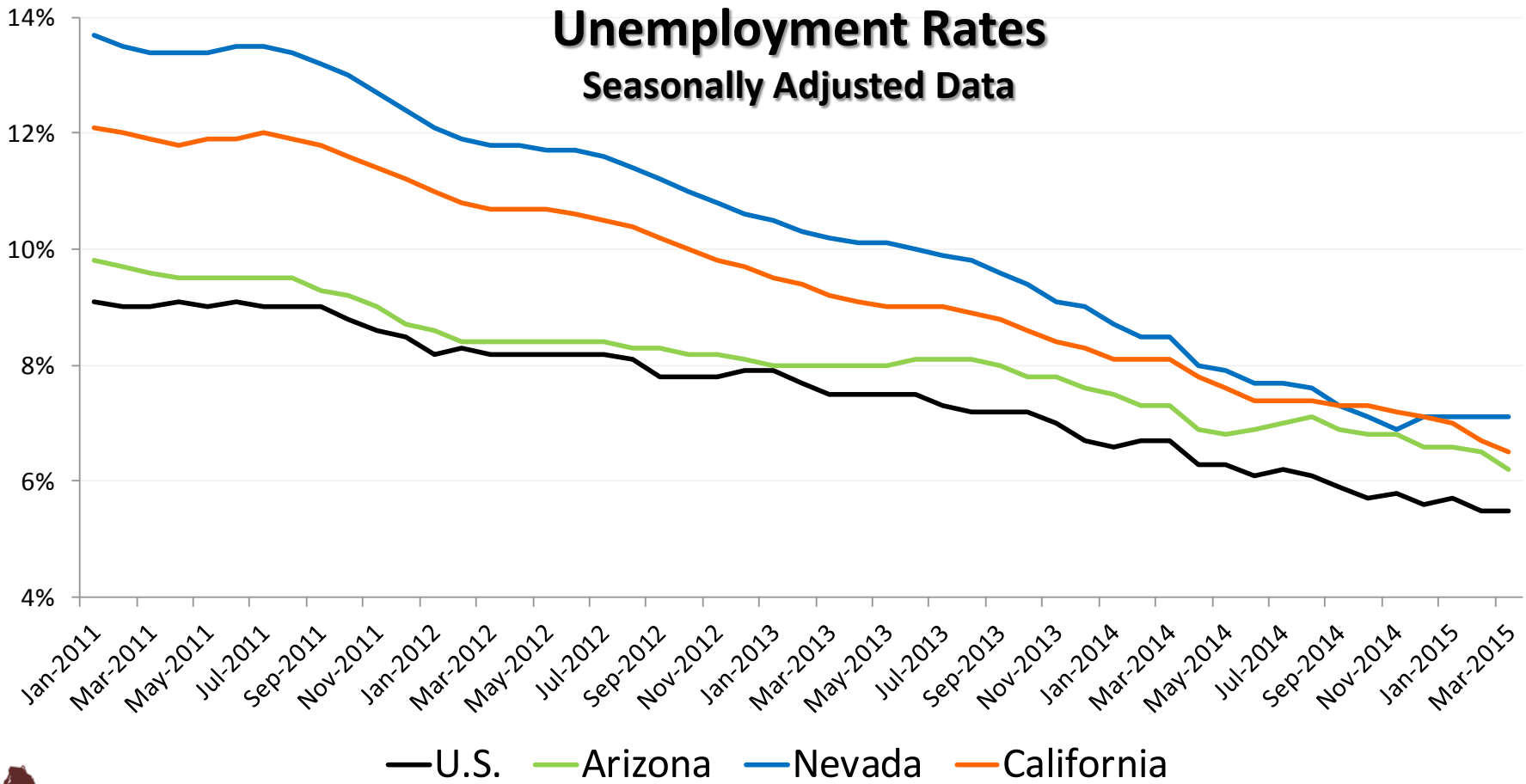


Economic Overview – Service Area

Natural Gas Operations



Unemployment Rates
Seasonally Adjusted Data



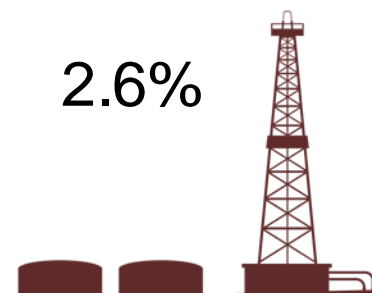
Economic Overview – Service Area

Natural Gas Operations



Employment Growth

	As of March	
	2014	2015
Southern California	2.7%	4.2%
Nevada	3.8%	2.8%
Arizona	1.9%	2.6%



Customer Growth Breakdown



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Natural Gas Operations

(In thousands)

	Twelve Months Ended March 31,		
	2013	2014	2015
Beginning period	1,866	1,886	1,912
New meter sets	19	21	21
Meter turn-on/turn-offs	1	5	5
Ending period	<u>1,886</u>	<u>1,912</u>	<u>1,938</u>

- For 2015, Company is projecting net customer growth of about 1.5%
 - Slowly improving economic conditions provide organic growth opportunities



Customer by State

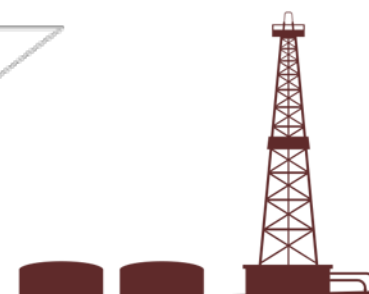
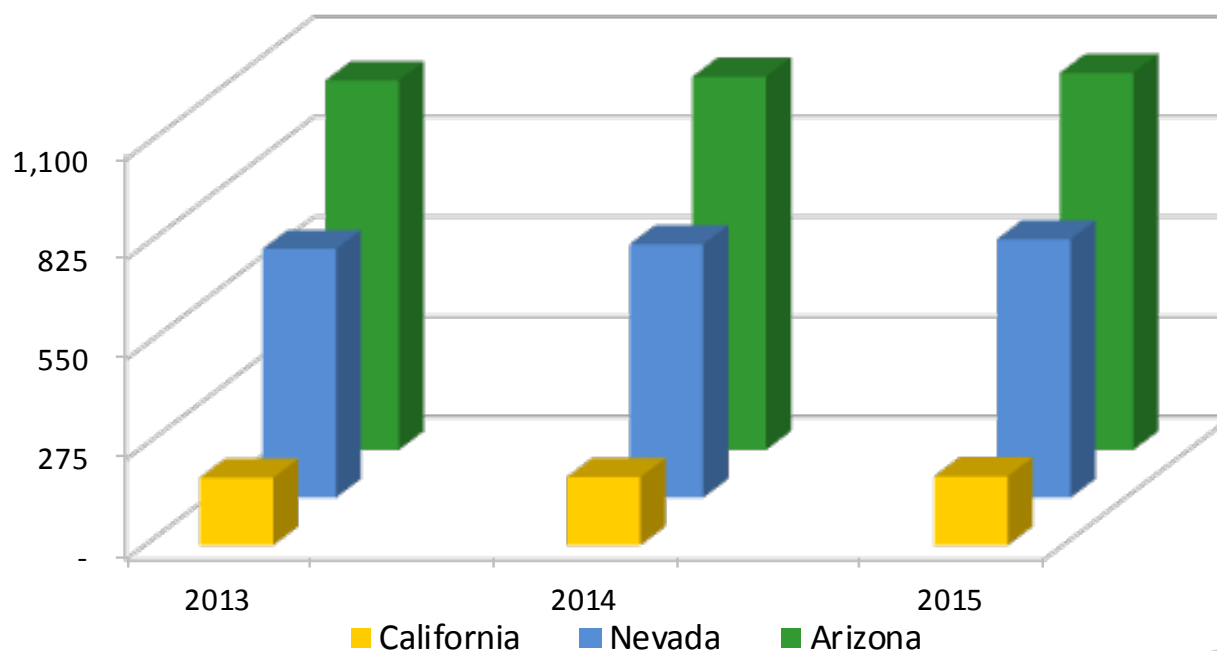
Natural Gas Operations



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As of March 31,

	2013	2014	2015
Arizona	1,016	1,027	1,037
Nevada	684	697	711
California	186	188	190
Total	1,886	1,912	1,938



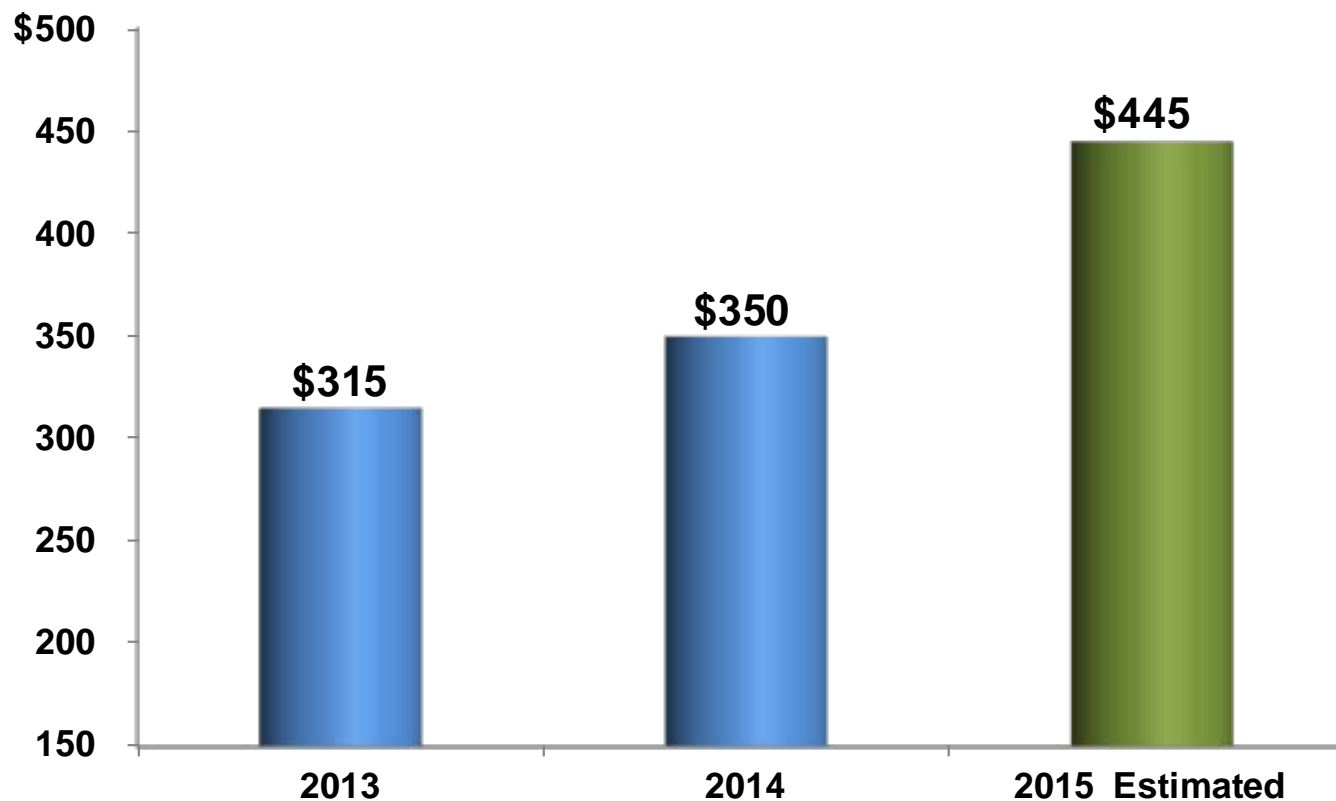
Capital Expenditures

Natural Gas Operations

(In millions)



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2015 - 2017 Estimate: \$1.3 billion





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Other Income and Deductions

Natural Gas Operations

(In thousands)

	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	2015	2014	2015	2014
Change in COLI policies	\$ 1,300	\$ 900	\$ 5,700	\$ 9,500
Miscellaneous income and (expense)	1,302	712	2,455	357
Total other income (deductions)	<u>\$ 2,602</u>	<u>\$ 1,612</u>	<u>\$ 8,155</u>	<u>\$ 9,810</u>

Purchased Gas Adjustment (PGA) Balances



Natural Gas Operations
(In millions)

	March 31, 2014	December 31, 2014	March 31, 2015
Arizona	\$ 42.9	\$ 48.4	\$ 25.1
Northern Nevada	3.3	10.2	0.2
Southern Nevada	22.9	20.4	(0.4)
California	6.1	8.6	3.2
Total Receivable/(Payable)	<u>\$ 75.2</u>	<u>\$ 87.6</u>	<u>\$ 28.1</u>



Authorized Rate Base and Rates of Return



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Natural Gas Operations

	Authorized	Authorized	Authorized
	Rate Base	Rate of	Return on
	(In thousands)	Return	Common
<u>Rate Jurisdiction</u>			<u>Equity</u>
Arizona	\$ 1,070,117	8.95 %	9.50 %
Southern Nevada	825,190	6.47	10.00
Northern Nevada	115,933	7.88	9.30
Southern California	159,277	6.83	10.10
Northern California	67,620	8.18	10.10
South Lake Tahoe	25,389	8.18	10.10
Paiute Pipeline Company (1)	87,158	8.46	11.00

(1) Estimated amounts based on rate case settlement.

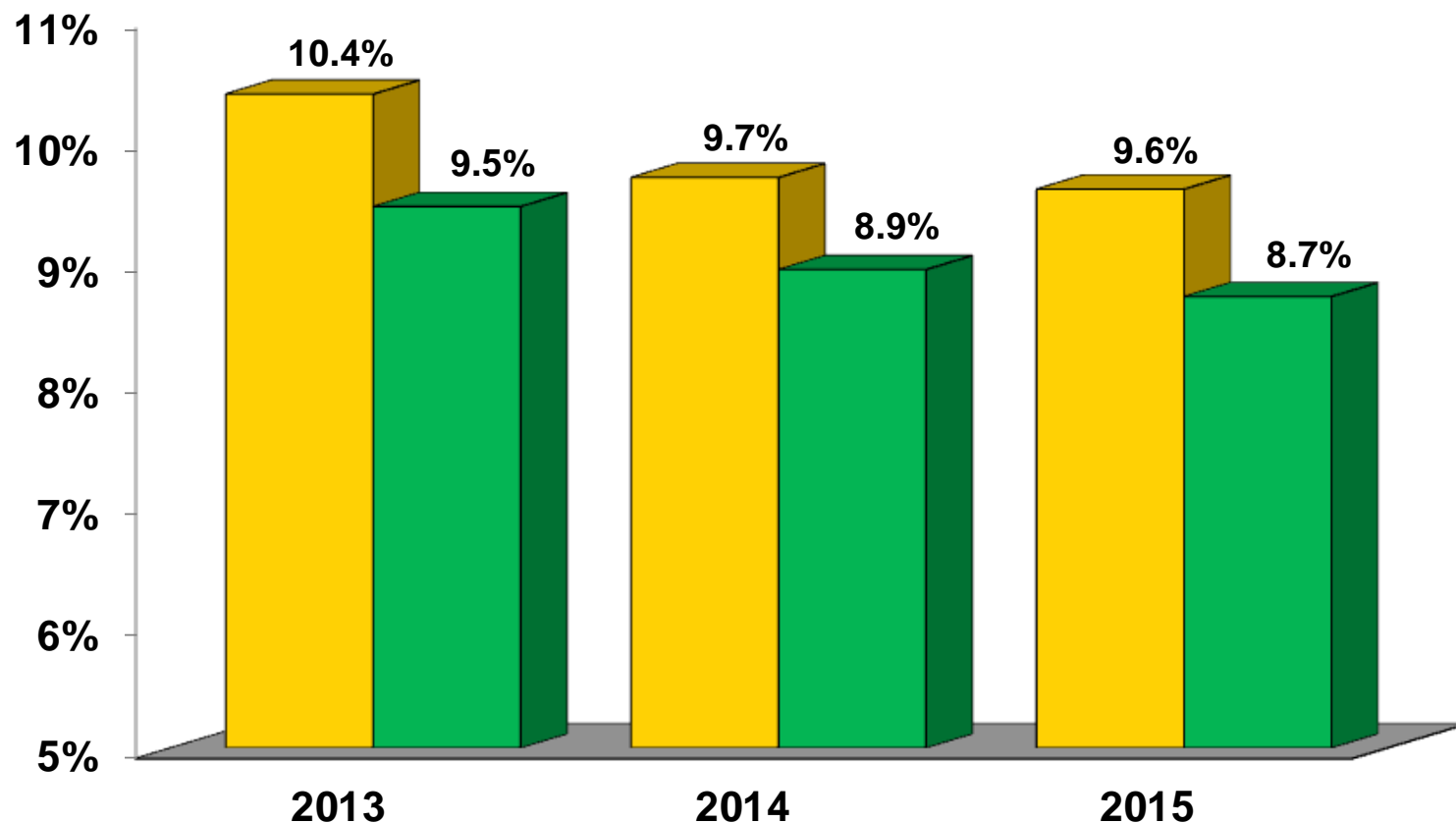


Return on Common Equity

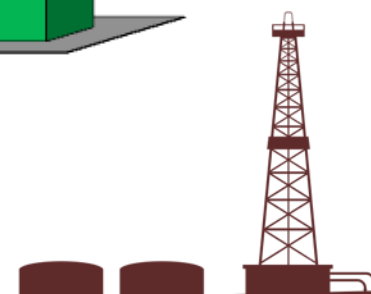
Twelve months ended March 31,



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- Return on Common Equity - Total Company
- Return on Common Equity - Gas Operations



Consolidated Capital Structure

(In millions)



Capitalization at March 31,	2011	2012	2013	2014	2015
Common Equity ¹	\$ 1,231	\$ 1,295	\$ 1,379	\$ 1,470	\$ 1,571
Long-Term Debt ²	1,123	1,393	1,256	1,380	1,525
Total Permanent Capital	<u>\$ 2,354</u>	<u>\$ 2,688</u>	<u>\$ 2,635</u>	<u>\$ 2,850</u>	<u>\$ 3,096</u>
Capitalization ratios					
Common Equity ¹	52.3%	48.2%	52.3%	51.6%	50.7%
Long-Term Debt ²	47.7%	51.8%	47.7%	48.4%	49.3%
Total Permanent Capital	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

¹ Includes redeemable noncontrolling interest

² Includes current maturities of long-term debt



Investment Grade Credit Ratings



Moody's

Rating

- Senior Unsecured Debt: A3 (January 2014)
- Outlook: Stable

Standard & Poor's

- Senior Unsecured Debt: BBB+ (October 2014)
- Outlook: Stable

Fitch

- Senior Unsecured Debt: A (May 2013)
- Outlook: Stable



Stock Performance



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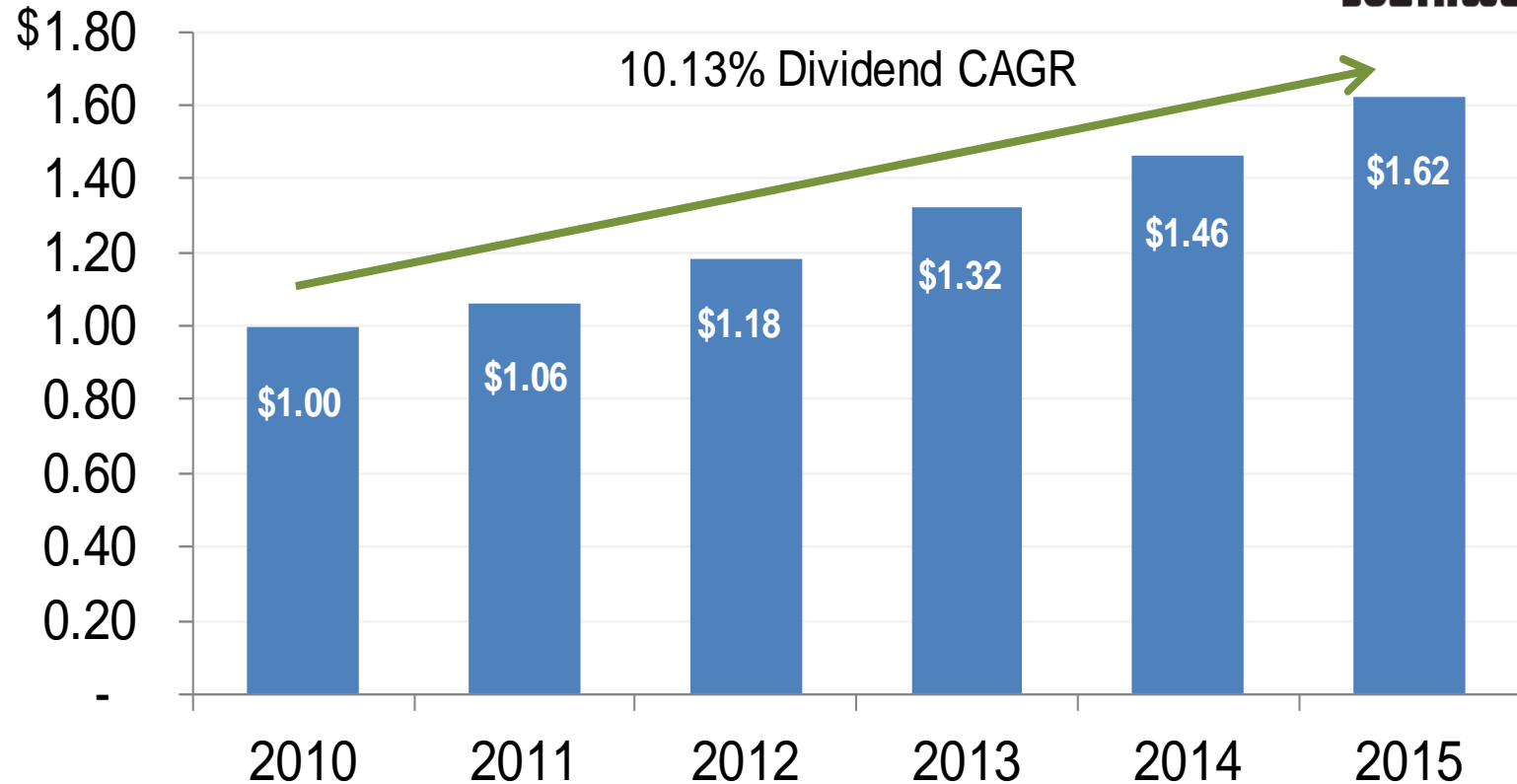
NYSE: SWX
Common Stock Closing Price
March 31, 2005 – March 31, 2015



Annualized Dividend Growth



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CAGR = compound annual growth rate

February 2015, Board increased annual dividend \$0.16



Comparative Total Returns



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Total Returns for Periods Ended March 31, 2015

	1-Year	3-Year	5-Year	10-Year
Southwest Gas	11.76%	13.81%	17.38%	12.42%
S&P 600 Small Gas Index	12.51%	11.14%	11.61%	10.19%
Dow Jones Utilities	14.25%	12.81%	13.65%	9.17%
S&P 500 Index	12.70%	16.07%	14.44%	8.00%

Total Return = Price appreciation plus gross dividends reinvested

