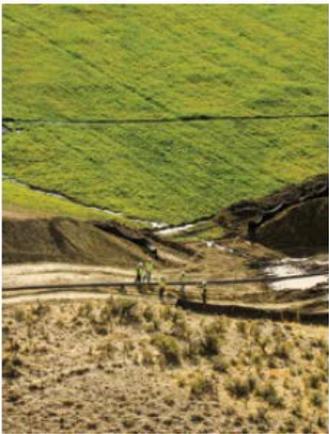


# 2016 Mid-Year Earnings Conference Call

## August 9, 2016





# Safe Harbor Statement

This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2016 expectations for our construction services and natural gas operations segments.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2015 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

- The timing and amount of rate relief;
- Changes in operating expenses;
- Changes in rate design;
- Customer growth rates;
- Conditions in housing markets;
- The effects of regulation/deregulation;
- The impacts of construction activity at our construction services segment;
- The impacts of stock market volatility; and
- Other factors discussed from time to time in our filings with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. The statements in this presentation are made as of the date hereof, even if subsequently made available on our Web site or otherwise. We do not assume any obligation to update the forward-looking statements provided to reflect events that occur or circumstances that exist after the date on which they were made.



# 2016 Second Quarter Highlights

## Consolidated

- Overall, year-end expectations remain consistent
- SWG shares were reclassified from the S&P SmallCap 600 to the S&P MidCap 400
- Holding Company reorganization approved by regulators, expectation is for it to become effective as early as the fourth quarter

## Natural Gas Operations

- Added 24,000 net new customers over the last twelve months
- Filed Arizona general rate case application in May, requesting a \$74 million increase in annualized operating income
- Filed \$60.7 million GIR advance application with PUCN

## Construction Services

- Strong revenue growth both organically and from acquired companies
- Acquisition of Enterprise Trenchless Technologies Inc. (ETTI) in May 2016



# Call Outline

- I. Consolidated earnings – June 30, 2016
- II. Natural gas segment
- III. Centuri Construction Group
- IV. Regulation
- V. Customer growth
- VI. Capital expenditures
- VII. 2016 outlook update



# Summary Operating Results

(In thousands, except per share amounts)

	THREE MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
<b>Results of Consolidated Operations</b>				
Gas operations income (loss)	\$ 2,358	\$ (657)	\$ 113,302	\$ 120,739
Construction services income	6,585	5,606	32,472	16,909
Net income	<u>\$ 8,943</u>	<u>\$ 4,949</u>	<u>\$ 145,774</u>	<u>\$ 137,648</u>
Basic earnings per share	<u>\$ 0.19</u>	<u>\$ 0.11</u>	<u>\$ 3.08</u>	<u>\$ 2.95</u>
Diluted earnings per share	<u>\$ 0.19</u>	<u>\$ 0.10</u>	<u>\$ 3.06</u>	<u>\$ 2.92</u>
Average shares outstanding	47,473	46,869	47,347	46,628
Average shares outstanding (assuming dilution)	47,811	47,290	47,693	47,070



# Summary Operating Results

## Natural Gas Operations

(In thousands)

### Results of Natural Gas Operations

	THREE MONTHS ENDED JUNE 30,	
	2016	2015
Gas operating revenues	\$ 255,648	\$ 286,643
Net cost of gas sold	71,416	109,015
Operating margin	184,232	177,628
Operations and maintenance expense	98,744	99,344
Depreciation and amortization	57,232	52,912
Taxes other than income taxes	12,987	12,414
Operating income	15,269	12,958
Other income (deductions)	2,436	312
Net interest deductions	16,561	15,749
Income (loss) before income taxes	1,144	(2,479)
Income tax expense (benefit)	(1,214)	(1,822)
Contribution to net income (loss)	\$ 2,358	\$ (657)



# Three Months Ended June 30, 2016

## Increase in Operating Margin

### Natural Gas Operations

(In millions)

<b>Rate relief (CA, Paiute)</b>	<b>\$</b>	<b>2</b>
<b>Customer growth</b>		<b>2</b>
<b>Conservation and energy efficiency (NV)</b>		<b>2</b>
<b>Other</b>		<b>1</b>
<b>Increase</b>	<b>\$</b>	<b>7</b>



# Three Months Ended June 30, 2016

## Operating Expenses and Net Financing Costs

### Natural Gas Operations

#### Operating expenses increased \$4.3 million

- O&M expense decreased 1%
  - Lower pension costs
  - Reduction in legal claims
- Depreciation and amortization, and general taxes increased \$4.9 million, or 7%
  - Average gas plant in service increased \$338 million
  - Amortization associated with the recovery of regulatory assets increased \$1.1 million

Net financing costs increased by \$812,000 due primarily to higher interest expense associated with PGA balances



# Summary Operating Results

## Natural Gas Operations

(In thousands)

TWELVE MONTHS ENDED JUNE 30,

2016

2015

### Results of Natural Gas Operations

Gas operating revenues	\$ 1,395,629	\$ 1,463,873
Net cost of gas sold	486,048	578,771
Operating margin	909,581	885,102
Operations and maintenance expense	397,886	378,558
Depreciation and amortization	224,845	208,724
Taxes other than income taxes	50,982	50,242
Operating income	235,868	247,578
Other income (deductions)	3,569	5,619
Net interest deductions	65,041	65,858
Income before income taxes	174,396	187,339
Income tax expense	61,094	66,600
Contribution to net income	\$ 113,302	\$ 120,739



# Twelve Months Ended June 30, 2016

## Increase in Operating Margin

### Natural Gas Operations

(In millions)

<b>Customer growth</b>	<b>\$</b>	<b>8</b>
<b>Rate relief (CA, Paiute)</b>		<b>7</b>
<b>Conservation and energy efficiency (NV)</b>		<b>6</b>
<b>Other</b>		<b>3</b>
<b>Increase</b>	<b>\$</b>	<b>24</b>



# Twelve Months Ended June 30, 2016

## Natural Gas Operations

- Operations and maintenance expense increased \$19.3 million between periods
  - General cost increases and higher employee-related medical and pension costs
  - Pipeline integrity management and damage prevention programs increased \$4.4 million
- Depreciation and amortization, and general taxes increased \$16.9 million, or 7%, between periods
  - Average gas plant in service increased \$295 million
  - Amortization related to the recovery of regulatory assets increased \$6.4 million



# Other Income and Deductions

## Natural Gas Operations

(In thousands)

	TWELVE MONTHS ENDED JUNE 30,	
	2016	2015
Change in COLI policies	\$ 1,300	\$ 3,400
Miscellaneous income and (expense)	2,269	2,219
Total other income (deductions)	<u>\$ 3,569</u>	<u>\$ 5,619</u>



# Summary Operating Results

## Construction Services

(In thousands)

	THREE MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2016	2015	2016	2015
<b>Results of Construction Services</b>				
Construction revenues	\$ 292,100	\$ 251,961	\$ 1,074,168	\$ 869,109
Operating expenses:				
Construction expenses	263,926	225,829	955,332	777,773
Depreciation and amortization	15,327	14,043	58,763	53,648
Operating income	12,847	12,089	60,073	37,688
Other income (deductions)	34	(150)	1,067	(553)
Net interest deductions	1,660	1,968	7,086	7,081
Income tax expense	4,480	4,251	20,414	13,027
Noncontrolling interests	156	114	1,168	118
Contribution to net income	\$ 6,585	\$ 5,606	\$ 32,472	\$ 16,909



# Three Months Ended June 30, 2016

## Construction Services

- Revenues increased \$40.1 million
  - Additional pipe replacement work
  - Newly acquired ETTI provided \$1.1 million in revenue
- Construction expenses increased \$38.1 million
  - Additional pipe replacement work, as noted above
- Depreciation & amortization increased \$1.3 million
  - Additional equipment purchases to support the growing volume of work
  - Partially offset by a decline in the amortization of certain finite-lived intangible assets recognized from the October 2014 acquisition (\$600,000)



# Twelve Months Ended June 30, 2016

## Construction Services

- Revenues increased \$205.1 million
  - Additional pipe replacement work
  - Higher revenues from the acquired companies in Canada
  - Favorable weather conditions provided an extended construction season
- Construction expenses increased \$177.6 million
  - Additional pipe replacement work
  - Incremental construction costs associated with the acquired Canadian companies
- Depreciation expense increased \$5.1 million
  - Additional equipment purchased to support growth and volume of work being performed
  - Partially offset by lower amortization on finite-lived intangible assets recognized from the acquisition



# Regulation Key Highlights

## Natural Gas Operations

- Arizona general rate case
- Arizona COYL program
- Nevada GIR mechanism
- Holding Company Reorganization



# Regulation – General Rate Cases

Arizona General Rate Case

Natural Gas Operations

End of rate case moratorium: Filed May 2016

	Southwest Gas Requested
Rate Relief	\$32 Million
Depreciation study	(\$42 Million)
Rate Base	\$1.3 Billion
ROE	10.25%
Capital Structure - Equity	52%
Rate Design	Continuation of Decoupling Mechanism Gas Infrastructure Modernization Mechanism Property Tax Tracker
Estimated Effective Date	May 2017



# Regulation – General Rate Cases

## Arizona General Rate Case

### Natural Gas Operations

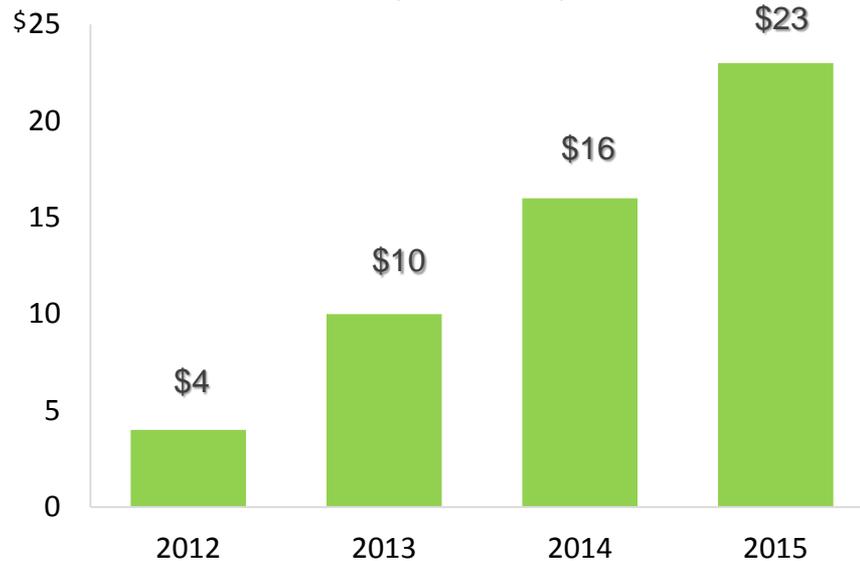
Year	Date	Procedural Schedule - Docket No. G-01551A-16-0107
<b>2016</b>	May 2	Application Filed
	Nov 30	Direct Testimony (Staff & Intervenors non rate design)
	Dec 14	Direct Testimony (Staff & Intervenors rate design)
	Dec 15	Settlement Discussions Scheduled
	Dec 30	Rebuttal Testimony (Southwest Gas)
<b>2017</b>	Jan 20	Surrebuttal Testimony (Staff & Intervenors)
	Jan 30	Rejoinder Testimony (Southwest Gas)
	Feb 6	Hearings
	May 2017	New Rates (date pending)



# Regulation–Infrastructure Recovery Mechanisms

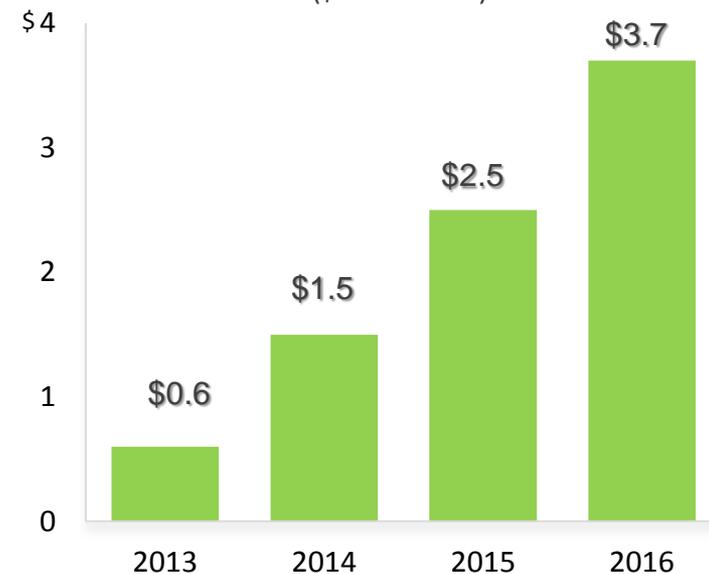
- Arizona Customer Owned Yard Line (COYL) program approved as part of last rate case decision

Cumulative COYL Capital Expenditures  
As of December 31  
(\$ in millions)



Green -  - Authorized

Annual COYL Surcharge  
Effective June  
(\$ in millions)

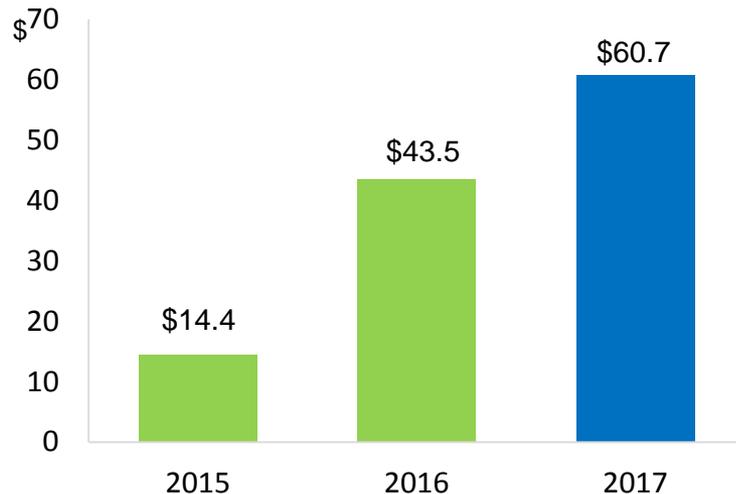




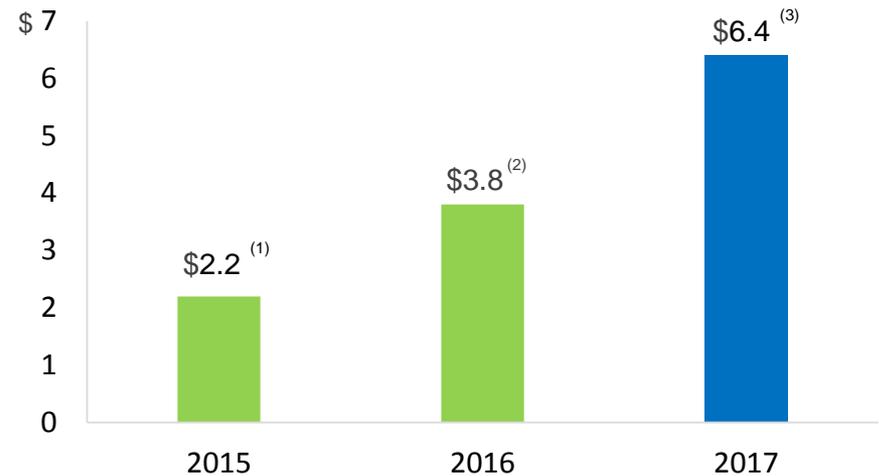
# Regulation—Infrastructure Recovery Mechanisms

- Nevada Gas Infrastructure Replacement (GIR) Mechanism - regulations approved in January 2014

**GIR Advance Application**  
Capital Expenditures  
(\$ in millions)



**GIR Surcharge**  
Effective January  
(\$ in millions)



- (1) Designed to recover deferrals associated with \$22 million of GIR and other approved replacement projects through August 31, 2014
- (2) Designed to recover deferrals associated with \$37.8 million of GIR and other approved replacement projects through August 31, 2015
- (3) Designed to recover deferrals associated with an estimated \$79.7 million of GIR and other approved replacement projects through August 31, 2016

Blue - - Requested/Estimated  
Green - - Authorized



# Regulation – Other Regulatory Proceedings

## Natural Gas Operations

### Holding Company Reorganization

- In October 2015, filed regulatory applications with the three state commissions (ACC, CPUC and PUCN) for approval to reorganize as a holding company
  - Received approval from the CPUC in January 2016, PUCN in March 2016 and the ACC in May 2016
- The reorganization is designed to provide further legal separation between the regulated and unregulated businesses and provide additional financing flexibility
  - Remains subject to consents from various third parties and final Board approval
  - Could become effective as early as the fourth quarter



# Customer Growth Breakdown

## Natural Gas Operations

(In thousands)

	Twelve Months Ended June 30,		
	2014	2015	2016
Beginning period	1,882	1,910	1,938
New meter sets	20	22	24
Meter turn-on/turn-offs	8	6	-
Ending period	<u>1,910</u>	<u>1,938</u>	<u>1,962</u>



# Economic Overview

## Service Area

## Natural Gas Operations

### Unemployment Rate

### Employment Growth

June 2015

June 2016

June 2015

June 2016

**Southern California**

6.5%

6.6%

3.7%

3.3%

**Southern Nevada**

7.0%

6.9%

3.8%

2.9%

**Northern Nevada**

6.9%

6.7%

-0.3%

-0.3%

**Southern Arizona**

5.9%

5.8%

-0.1%

3.5%

**Central Arizona**

5.4%

5.4%

2.8%

3.6%

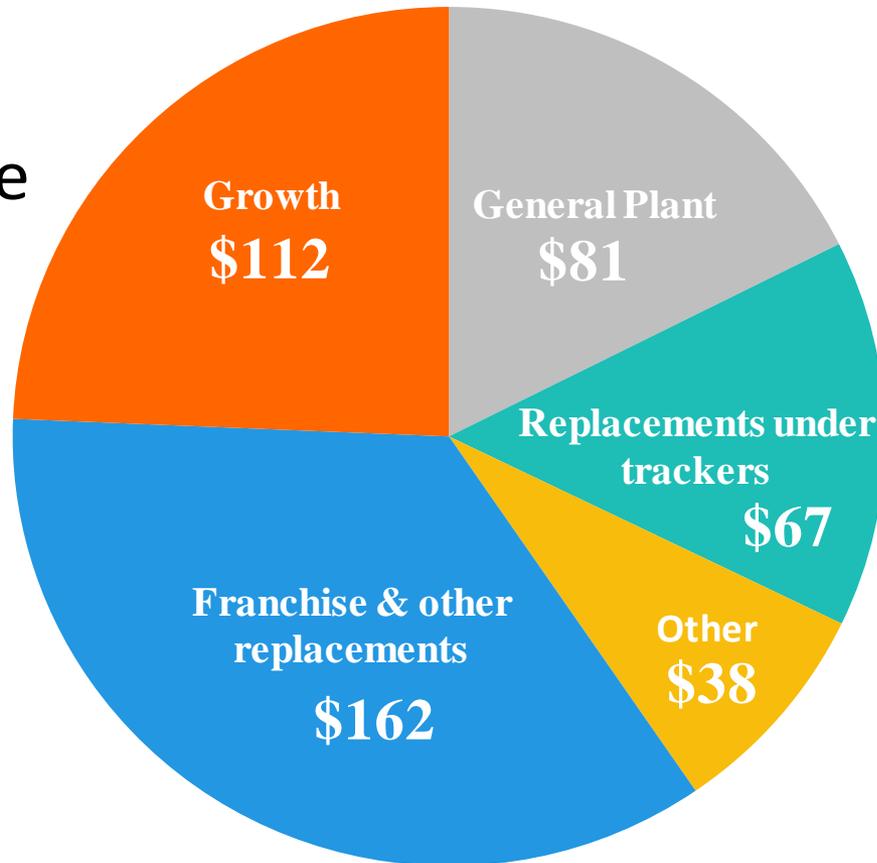


# 2016 Capital Expenditures

## Natural Gas Operations

(In millions)

- 2016 total estimate
  - \$460 million



2016-2018 estimate: \$1.4 billion to \$1.6 billion



# 2016 Outlook Update

## Natural Gas Operations

- Operating margin increase of approximately 3%
  - Additionally, new rates related to recovery of NV conservation programs to increase margin by nearly \$11 million, offset by similar amortization expense increase
- O&M expense expected to increase modestly
  - Higher general & incremental costs partially offset by pension cost decrease
- Depreciation & general taxes increase consistent with gas plant growth of 5% – 6%, plus impact of NV conservation programs noted above
- Operating income to increase by 3% – 4% (previously 4% – 5%)
- Average normal annual COLI returns of \$3 – \$5 million
  - Continue to be subject to volatility, evidenced by swing over last two years
- Net interest deductions for 2016 increase of \$2 – \$4 million (previously \$5 – \$7 million) due to capital expenditure financing requirements



# 2016 Outlook Update

## Construction Services

- Revenues 7% – 10% (previously 3% – 7%) greater than 2015 levels
  - Primarily driven by strong base of large utility clients, many with multi-year pipe replacement programs, positioned to sustain and grow business
- Operating income approximating 5% – 5.5% (previously 5.5% – 6%) of revenues
- Net interest deductions between \$6.5 million - \$7.5 million
  - Based on current interest rate environment
- Collective expectations exclude consideration of earnings attributable to noncontrolling interests
- Changes in foreign exchange rates could influence outcomes



# APPENDIX



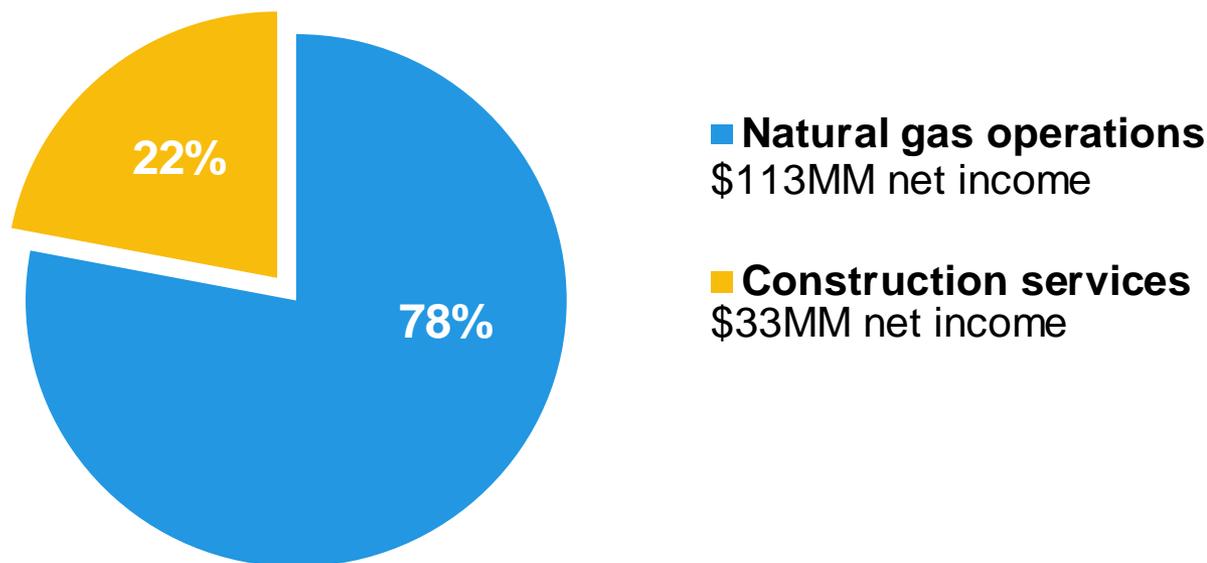


# Two Business Segments

Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

**TMTD 6/30/16 Net Income  
\$146MM**





# Southwest Gas is a Regional Leader in Natural Gas Distribution

Headquartered in Las Vegas

Largest distributor of natural gas in Arizona and Nevada

Distributes and transports natural gas in parts of California

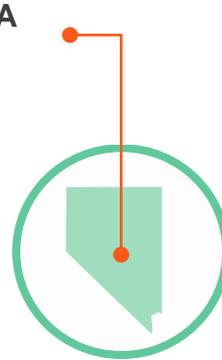
**1,962,000** customers in service territory at 6/30/2016

Over **99%** of customers are residential and small commercial

ARIZONA



NEVADA



CALIFORNIA







# Centuri Construction Group

## Construction Services - Customers





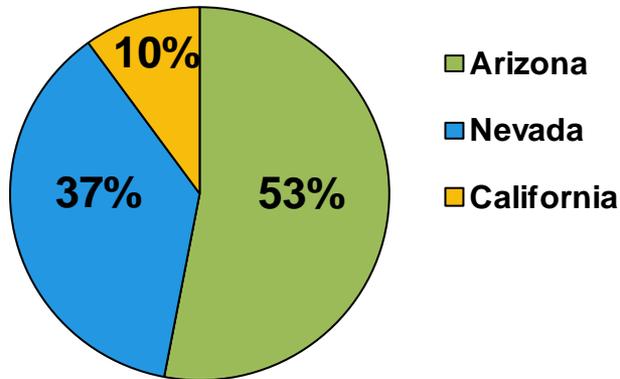
# Stable Customer Base

## Natural Gas Operations

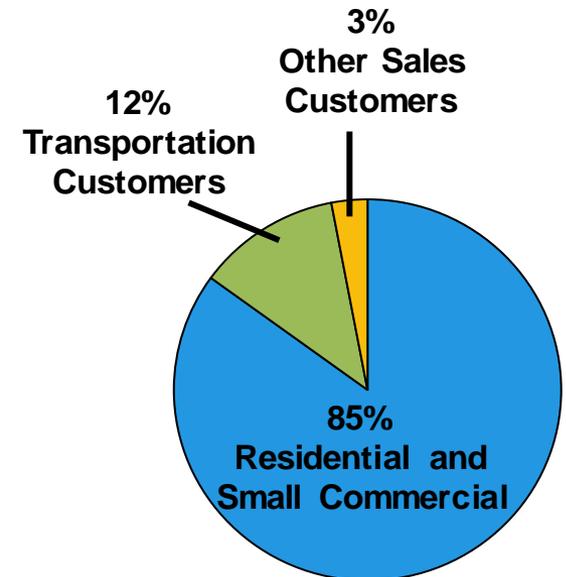
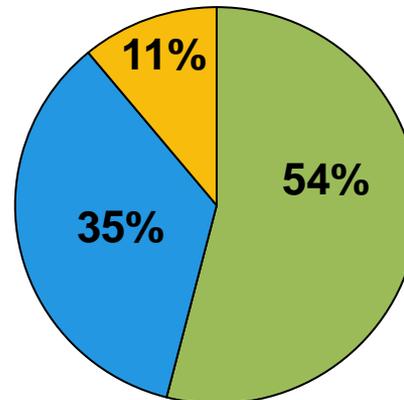
### TMTD June 30, 2016 Customer & Operating Margin Distribution

#### By State

Customers



Margin



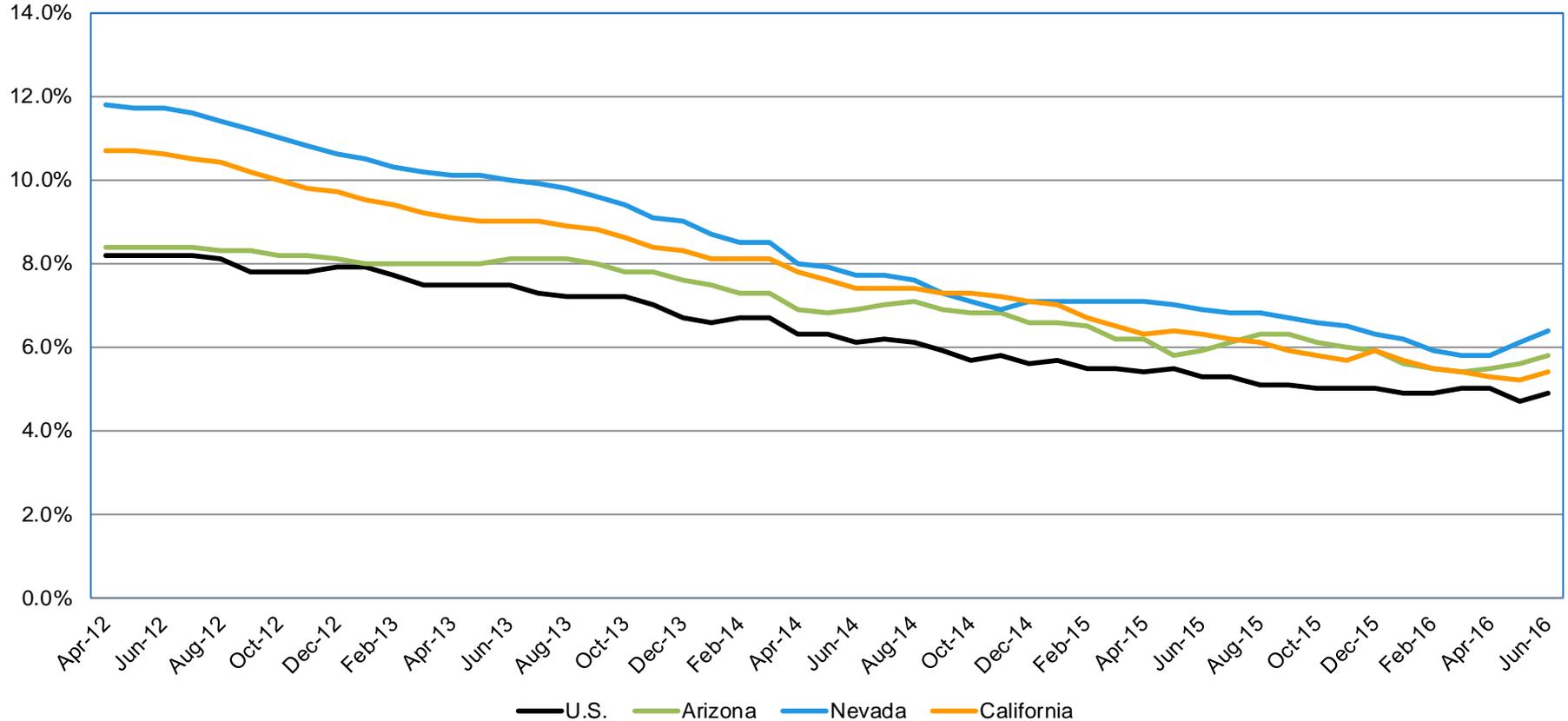
➤ Consistent trends year over year



# Economic Overview – Service Area

## Natural Gas Operations

**Unemployment Rate**  
Seasonally Adjusted Data





# Regulation

## California Annual Attrition and Implementation Plan Natural Gas Operations

- 2016 attrition increase of \$2.5 million
- Natural Gas Transmission Pipeline Comprehensive Pressure Testing Implementation Plan (Implementation Plan)
  - Involved replacement of 7.1 miles of transmission pipeline and installation of remote control shut-off valve
  - CPUC approved adjustment to recover costs which is expected to result in a \$1.7 million margin increase for 2016



# Regulation – Expansion Projects

## Natural Gas Operations

- **Proposed LNG facility**
  - Received pre-approval from ACC in December 2014 to build \$55 million facility
  - Purchased site for facility in October 2015
  - Contract to construct is expected to be in place in second half of 2016, with construction expected to take two to three years
  
- **Paiute Pipeline Company (FERC)**
  - \$35 million, 35 mile lateral to interconnect Paiute with Ruby Pipeline and increase gas supply deliverability to Elko
  - FERC approval received in May 2015, construction began in the second quarter of 2015, project completed and placed in service in January 2016
  - Rates to recover project were implemented in January 2016 and will result in incremental revenue of approximately \$6 million
  
- **Nevada SB 151 – Expansion/Economic Development Legislation**
  - Facilitates expansion of natural gas service to unserved or underserved areas in Nevada
  - Final regulations approved by PUCN in January 2016

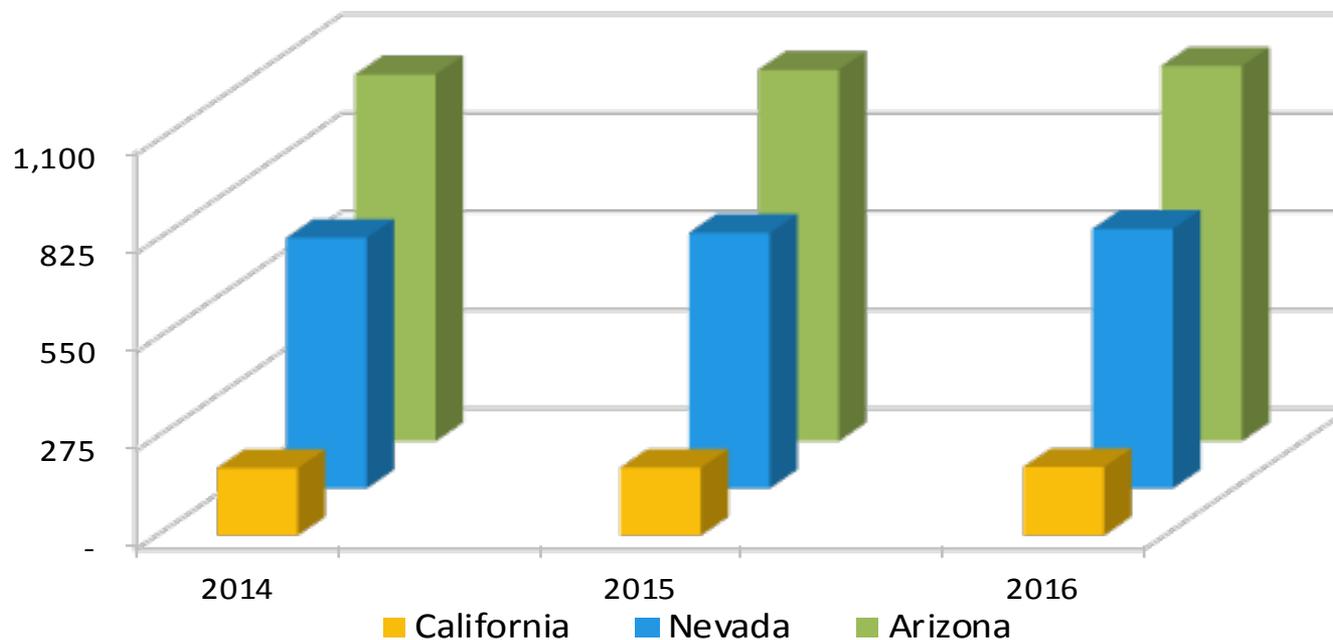


# Customers by State

## Natural Gas Operations

As of June 30,

	2014	2015	2016
Arizona	1,023	1,036	1,047
Nevada	699	713	724
California	188	189	191
<b>Total</b>	<b>1,910</b>	<b>1,938</b>	<b>1,962</b>

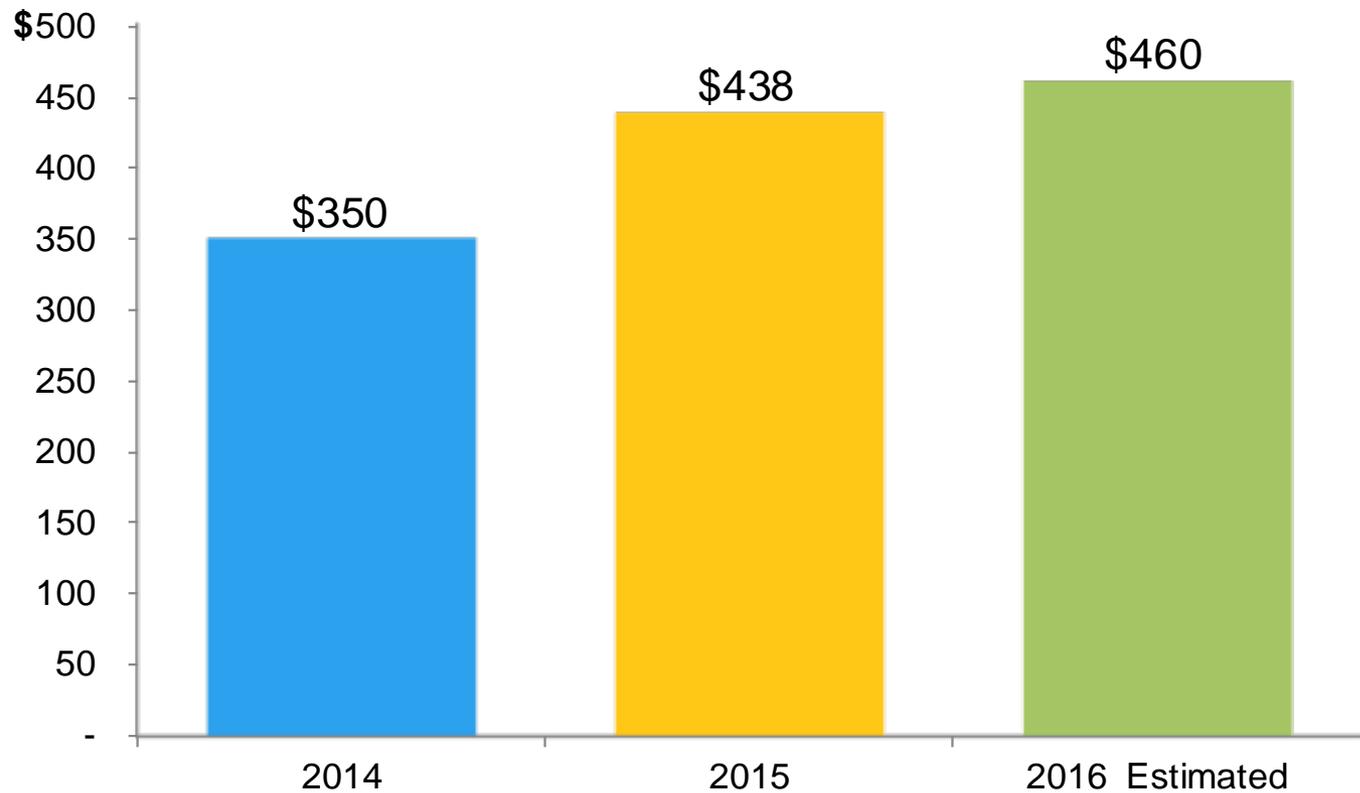




# Capital Expenditures

## Natural Gas Operations

(In millions)



2016 - 2018 Estimate: \$1.4 billion - \$1.6 billion



# Purchased Gas Adjustment (PGA) Balances

## Natural Gas Operations

(In millions)

	June 30, 2016	December 31, 2015	June 30, 2015
Arizona	\$ (33.9)	\$ (3.5)	\$ 3.5
Northern Nevada	(14.4)	(2.3)	(5.5)
Southern Nevada	(75.4)	(39.8)	(21.7)
California	(2.5)	3.6	0.2
Total Receivable/(Payable)	<u>(126.2)</u>	<u>(42.0)</u>	<u>(23.5)</u>



# Authorized Rate Base and Rates of Return

## Natural Gas Operations

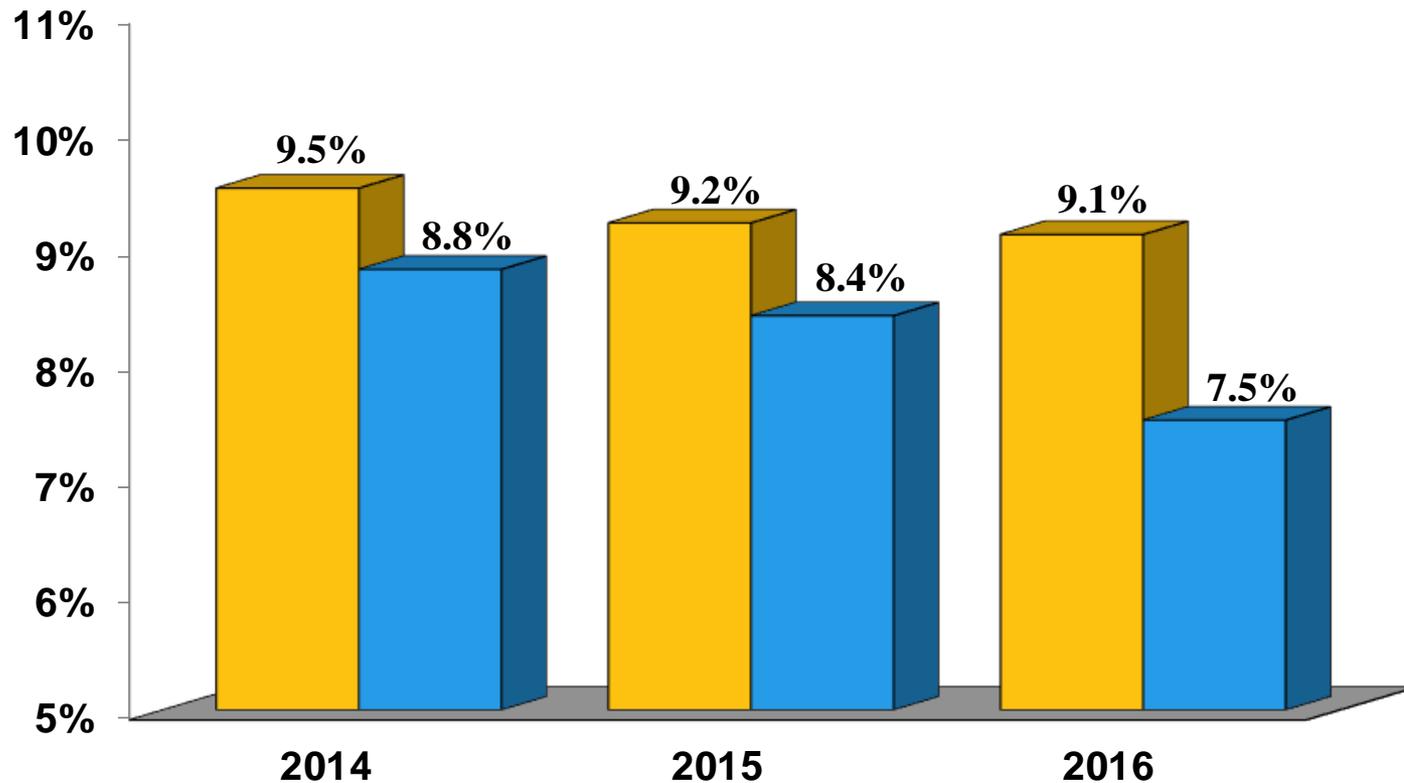
<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity</u>
Arizona	\$ 1,070,117	8.95 %	9.50 %
Southern Nevada	825,190	6.46	10.00
Northern Nevada	115,933	7.88	9.30
Southern California	159,277	6.83	10.10
Northern California	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 June 30,



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



# Consolidated Capital Structure

(In millions)

Capitalization at June 30,	2012	2013	2014	2015	2016
Equity <sup>1</sup>	\$ 1,281	\$ 1,376	\$ 1,465	\$ 1,569	\$ 1,657
Long-Term Debt <sup>2</sup>	1,222	1,268	1,390	1,542	1,478
<b>Total Permanent Capital</b>	<b>\$ 2,503</b>	<b>\$ 2,644</b>	<b>\$ 2,855</b>	<b>\$ 3,111</b>	<b>\$ 3,135</b>
<b>Capitalization ratios</b>					
Equity <sup>1</sup>	51.2%	52.1%	51.3%	50.4%	52.9%
Long-Term Debt <sup>2</sup>	48.8%	47.9%	48.7%	49.6%	47.1%
<b>Total Permanent Capital</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup>Includes redeemable noncontrolling interest

<sup>2</sup>Includes current maturities of long-term debt



# Investment Grade Credit Ratings

## Strong liquidity will support capital expenditure and working capital needs

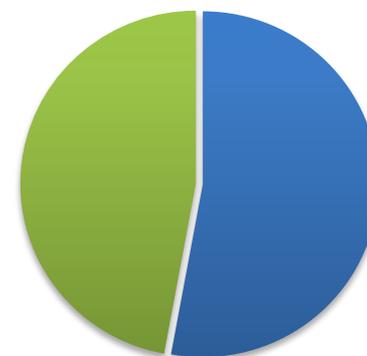
- Stable operating cash flows
- \$300 million revolving credit facility
- Uncommitted commercial paper program

## Strong investment-grade credit ratings

Rating Agency	Rating	Outlook	Reaffirmed
Moody's	A3	Stable	January 2016
S&P	BBB+	Stable	January 2016
Fitch	A	Stable	April 2016

## Capital Structure

As of June 30, 2016



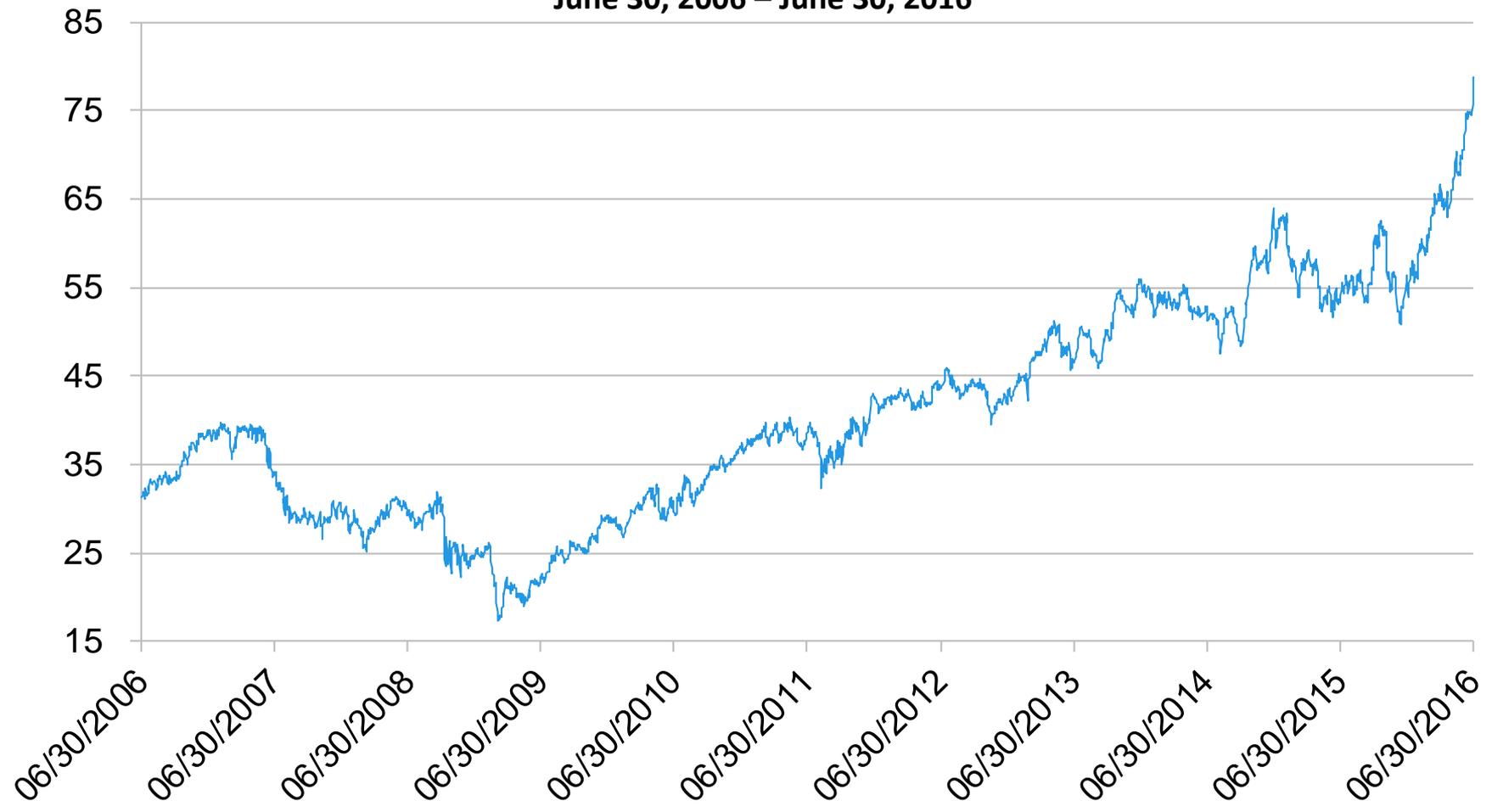
■ Equity 53%

■ Long-term debt 47%



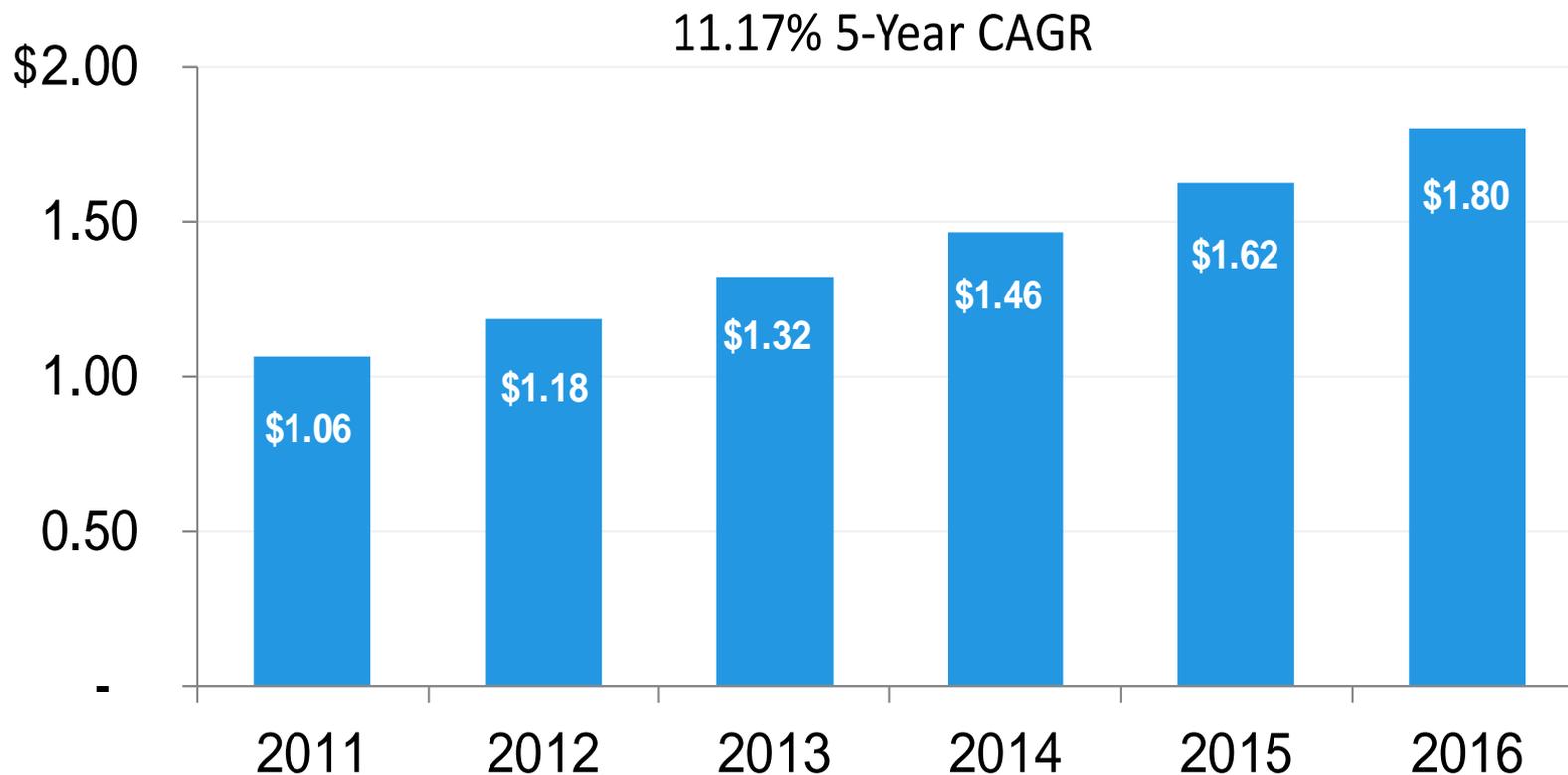
# Stock Performance

NYSE: SWX  
Common Stock Closing Price  
June 30, 2006 – June 30, 2016





# Annualized Dividend Growth



CAGR = compound annual growth rate

February 2016, Board increased annual dividend \$0.18



# Comparative Total Returns

## Total Returns for Periods Ended June 30, 2016

	1-Year	3-Year	5-Year	10-Year
<b>Southwest Gas</b>	<b>51.89%</b>	<b>22.11%</b>	<b>18.45%</b>	<b>12.87%</b>
<b>S&amp;P 400 MidCap Gas Index</b>	<b>34.59%</b>	<b>17.81%</b>	<b>14.05%</b>	<b>12.24%</b>
<b>Dow Jones Utilities</b>	<b>34.87%</b>	<b>18.00%</b>	<b>14.88%</b>	<b>9.80%</b>
<b>S&amp;P 500 Index</b>	<b>3.96%</b>	<b>11.60%</b>	<b>12.06%</b>	<b>7.41%</b>

**Total Return = Price appreciation plus gross dividends reinvested**