



SOUTHWEST GAS CORPORATION

**Williams Capital Group
West Coast Utilities Seminar**

March 16, 2016

Presented By

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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 outlook 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 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.

Presentation Outline

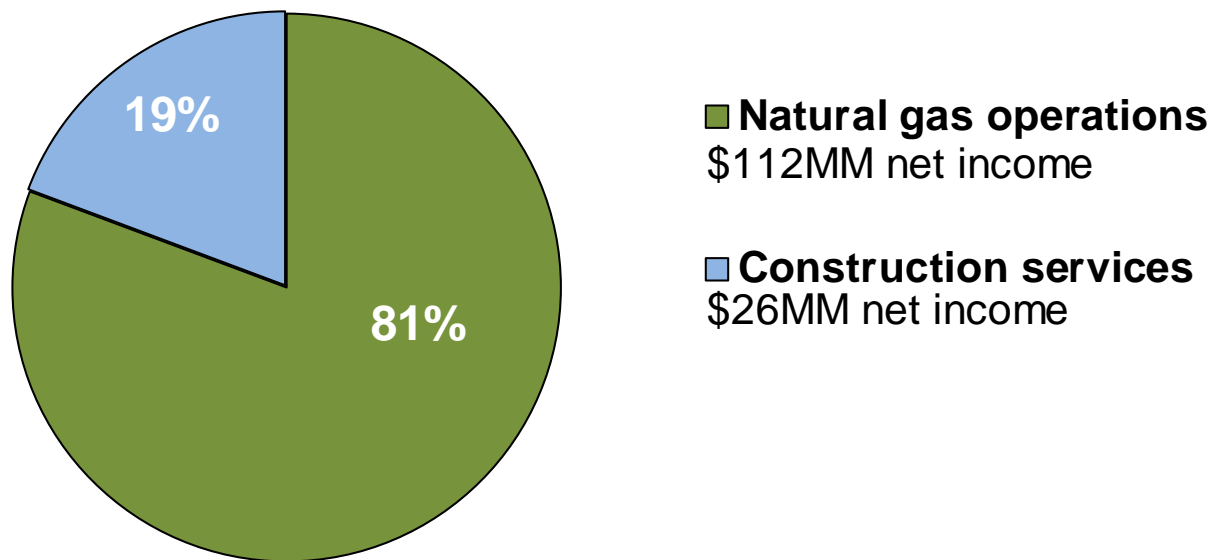
- I. Company overview and financial highlights
- II. Earnings
- III. Regulation
- IV. Customer growth and economic overview
- V. Capital expenditures
- VI. Dividend growth
- VII. 2016 expectations and focus

Two Business Segments

Southwest Gas consists of two business segments

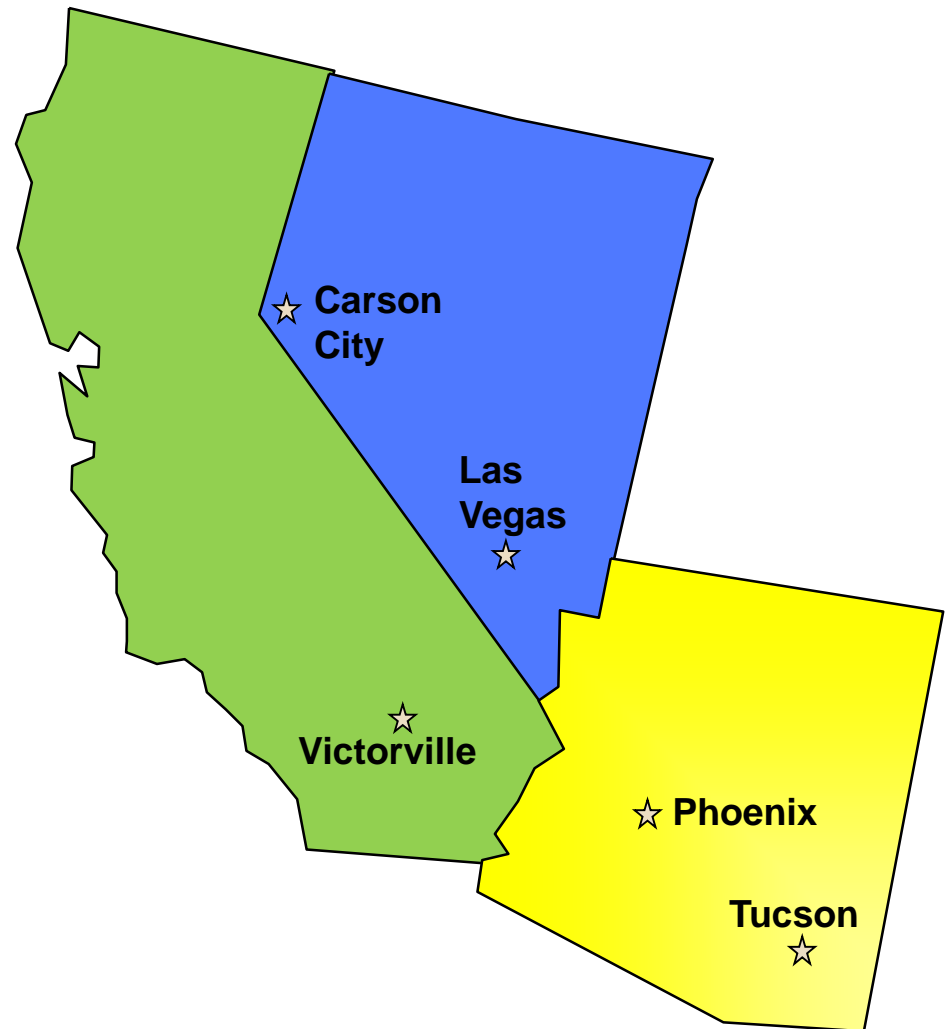
- Natural gas operations
- Construction services (Centuri)

TMTD 12/31/15 Net Income
\$138MM



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
- **1,956,000** customers in service territory at 12/31/2015
- Over **99%** of customers are residential and small commercial



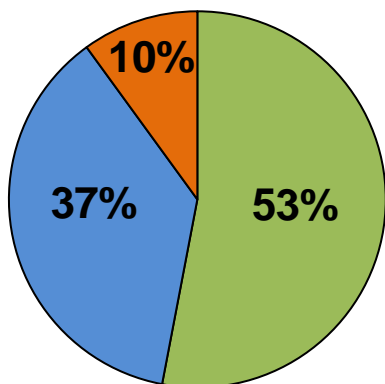
Stable Customer Base

Natural Gas Operations

TMTD December 31, 2015 Customer & Operating Margin Distribution

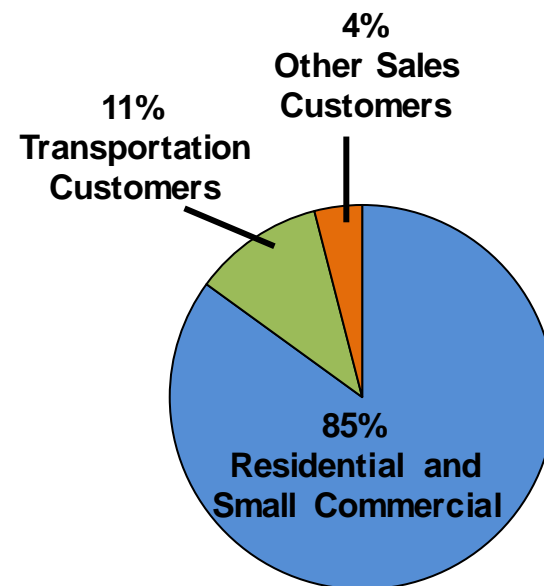
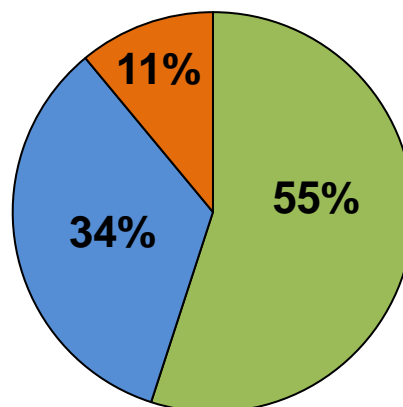
By State

Customers



■ Arizona
■ Nevada
■ California

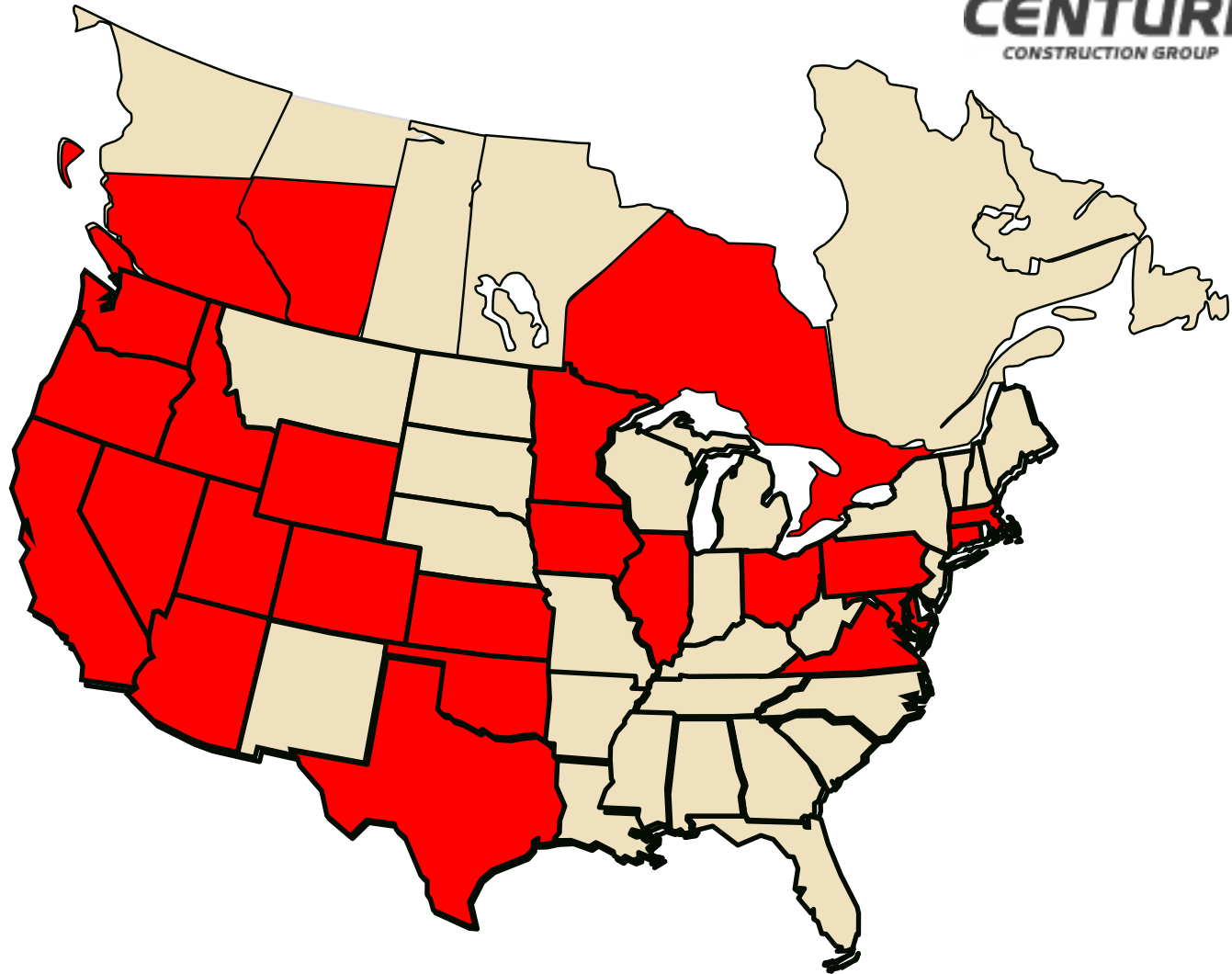
Margin



➤ Consistent trends year over year

Centuri Construction Group

Construction Services – Markets



Centuri Construction Group

Construction Services - High Quality Customers



2015 Highlights

➤ **Consolidated Results**

- Dividend increased for the tenth straight year (11%)
- Achieved an EPS of \$2.94
- Filed for holding company structure with state commissions

➤ **Natural Gas Segment**

- Added 26,000 customers
- Invested \$438 million in the gas system
- Top 5 U.S. ranking for brand trust for utilities
- Arizona rate case moratorium nearing end

➤ **Construction Services Segment**

- Achieved milestone revenue of \$1 billion
- Contributed record net income of \$26.7 million
- Successfully completed integration of Link-Line
- Final settlement with Canadian industrial construction project

Summary Operating Results

(In thousands, except per share amounts)

	TWELVE MONTHS ENDED DECEMBER 31,	
	2014	2015
Results of Consolidated Operations		
Contribution to net income - natural gas operations	\$ 116,872	\$ 111,625
Contribution to net income - construction services	24,254	26,692
Net income	<u>\$ 141,126</u>	<u>\$ 138,317</u>
Basic earnings per share	<u>\$ 3.04</u>	<u>\$ 2.94</u>
Diluted earnings per share	<u>\$ 3.01</u>	<u>\$ 2.92</u>
Average outstanding common shares	46,494	46,992
Average shares outstanding (assuming dilution)	46,944	47,383

Natural Gas Operations Highlights

- Operating margin increased 1.6% compared to prior year
- Realized 26,000 net new customers, an increase of 1.35%
- Net financing costs decreased \$4.2 million between 2015 and 2014
- Paiute expansion project placed into service in January 2016
- Invested \$438 million in the gas system
- Continuous positive progress on regulatory matters

Summary Operating Results

Natural Gas Operations

(In thousands)

Results of Natural Gas Operations

	TWELVE MONTHS ENDED DECEMBER 31,	
	2014	2015
Gas operating revenues	\$ 1,382,087	\$ 1,454,639
Net cost of gas sold	505,356	563,809
Operating margin	876,731	890,830
Operations and maintenance expense	383,732	393,199
Depreciation and amortization	204,144	213,455
Taxes other than income taxes	47,252	49,393
Operating income	241,603	234,783
Other income	7,165	2,292
Net interest deductions	68,299	64,095
Income before income taxes	180,469	172,980
Income tax expense	63,597	61,355
Contribution to net income - gas operations	\$ 116,872	\$ 111,625



2015 Increase in Operating Margin

Natural Gas Operations

(In millions)

Customer growth	\$	8
Rate relief		5
Other		1
Increase	\$	14

Operating Expense

Natural Gas Operations

Operating expenses increased \$20.9 million or 3.3%

- O&M expense increased 2.5%
 - Higher employee-related expenses related to pension expense
 - All other costs were generally flat
- Depreciation and amortization expense increased 5%
 - Driven by 5% increase in average plant and an increase in regulatory amortizations
- General taxes increased 5%
 - Primarily due to higher property taxes associated with plant additions

Other Income and Deductions

Natural Gas Operations

(In thousands)

	TWELVE MONTHS ENDED DECEMBER 31,	
	2014	2015
Change in COLI policies	\$ 5,300	\$ (500)
Miscellaneous income and (expense)	1,865	2,792
Total other income (deductions)	<u>\$ 7,165</u>	<u>\$ 2,292</u>

Net Financing Costs

Natural Gas Operations

Decreased by \$4.2 million from \$68.3 million in 2014 to \$64.1 million in 2015

- Primarily due to the redemptions of \$65 million 5.25% Series A IDRBs in November 2014, \$31.2 million 5.00% 2004 Series B IDRBs in May 2015, and \$20 million 5.25% 2003 Series D IDRBs in September 2015
 - Decrease partially offset by increased interest expense on PGA balances

Construction Services Highlights



- Revenues exceeded \$1 billion and increased 36% compared to 2014
- Construction expenses increased 39% over prior year
- Contribution to net income increased \$2.4 million to a record \$26.7 million
- Final settlement of approximately \$4 million received on previously unresolved change orders with the industrial project in Canada, resulting in overall loss of \$3.4 million (\$22.3 million revenues less \$25.7 million of construction costs)

Summary Operating Results

Construction Services

(In thousands)



TWELVE MONTHS ENDED DECEMBER 31,

2014

2015

Results of Construction Services

Construction revenues	\$ 739,620	\$ 1,008,986
Operating expenses:		
Construction expenses	647,857	898,781
Depreciation and amortization	48,883	56,656
Operating income	42,880	53,549
Other income (deductions)	(58)	587
Net interest deductions	3,770	7,784
Income tax expense	14,776	18,547
Net income	24,276	27,805
Noncontrolling interests	22	1,113
Contribution to net income	\$ 24,254	\$ 26,692

Operating Revenues

Construction Services



Operating revenues increased by \$269.4 million compared to 2014 primarily due to:

- Additional pipe replacement work
 - NPL revenues in the U.S. increased over \$140 million largely from securing contracts to perform accelerated work for its large utility customers
 - Favorable fourth quarter 2015 weather conditions provided extended construction season
- Inclusion of a full year of revenues of the recently acquired companies (an increase of \$124 million)

Operating Expenses

Construction Services



Construction expense increased by \$251 million

- Primarily due to additional pipe replacement work and the full-year, \$115 million, inclusion of acquired companies' construction costs
- General and administrative expense increased approximately \$9 million

Depreciation expense increased by \$8 million, or 16%, primarily due to:

- Amortization of finite-lived intangible assets recognized from the acquisition (\$3 million)
- Incremental depreciation from the acquired companies (\$4 million)

Regulation Key Highlights

Natural Gas Operations

➤ **General rate cases**

- California 2016 post-test year attrition filing
- Next Arizona general rate case

➤ **Infrastructure recovery mechanisms**

- Arizona COYL program
- Nevada GIR mechanism

➤ **Expansion projects**

- Arizona LNG facility
- Paiute Pipeline Company - Elko County expansion project
- Nevada SB 151 - Expansion/Economic Development Legislation

➤ **Other regulatory proceedings**

- Nevada Conservation and Energy Efficiency Program Recovery
- Holding Company Reorganization

Regulation – General Rate Cases

California Annual Attrition and Implementation Plan

Natural Gas Operations

As part of the 2014 general rate case decision by the CPUC, Post-Test Year (PTY) attrition increases were authorized for the years 2015 – 2018

- 2016 PTY increase of \$2.5 million effective January 2016

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 margin increase of \$1.7 million in 2016

Regulation – General Rate Cases

Next Arizona General Rate Case

Natural Gas Operations

Rate case moratorium:

- Earliest general rate case application – April 30, 2016
- New rates earliest effective – May 1, 2017
- Currently preparing rate case filing
 - Plan to request:
 - Continuation of decoupled rate design
 - Updated depreciation rates
 - Expansion of currently approved infrastructure recovery program
 - Update to cost of service, including increase in rate base of 22-24% various investments in distribution system
- Submission of filing anticipated for second quarter 2016, shortly after expiration of “stay-out” period

Regulation – Infrastructure Recovery Mechanisms

Natural Gas Operations

Arizona customer-owned yard line (COYL) program

- Long-term program initiated in 2012
- Make annual filings to surcharge for program costs to date
- Effective June 2015 the ACC authorized a revised surcharge to collect \$2.5 million to recover program capital costs through 2014 (\$16 million)
- In February 2016 submitted a filing with the ACC to update the surcharge to \$3.7 million and expect it to become effective midyear to recover program capital costs through 2015 (\$23.1 million)

Regulation – Infrastructure Recovery Mechanisms

Natural Gas Operations

Nevada gas infrastructure replacement (GIR) mechanism

- January 2014 PUCN approves GIR regulations
- 2014 GIR advance application authorized \$14.4 million replacement work for 2015
- 2015 GIR advance application authorized \$43.5 million replacement work for 2016
- 2015 GIR rate application
 - Authorizes a surcharge to recover cumulative infrastructure replacement deferrals through August 2015
 - Surcharge margin of approximately \$4 million effective January 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 up 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
 - Project completed and placed in service in January 2016
 - 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

Regulation – Other Regulatory Proceedings

Natural Gas Operations

Nevada Conservation and Energy Efficiency Recovery

- As part of the Annual Rate Adjustment filing in June 2015 Southwest Gas requested recovery of past deferred and expected 2016 energy efficiency and conservation development implementation costs
- Recovery approved effective January 2016
- Results in additional margin of approximately \$11 million, but no impact to net income as amounts collected from customers will also be reflected as amortization expense

Regulation – Other Regulatory Proceedings

Natural Gas Operations

Holding Company Reorganization

- In October 2015, filed regulatory applications with the Arizona Corporation Commission, the California Public Utilities Commission, and the Public Utilities Commission of Nevada for approval to reorganize as a holding company
- The reorganization is designed to provide further separation between the regulated and unregulated businesses and provide additional financing flexibility
- The reorganization is subject to approval of the state regulatory commissions, consents from various third parties, and final Board approval
- Received approval from the CPUC in January 2016
- The reorganization could become effective in the second half of 2016

Customer Growth Breakdown

Natural Gas Operations

(In Thousands)

	Twelve Months Ended December 31,		
	2013	2014	2015
Beginning period	1,876	1,904	1,930
New meter sets	21	20	23
Meter turn-on/turn-offs	7	6	3
Ending period	<u>1,904</u>	<u>1,930</u>	<u>1,956</u>

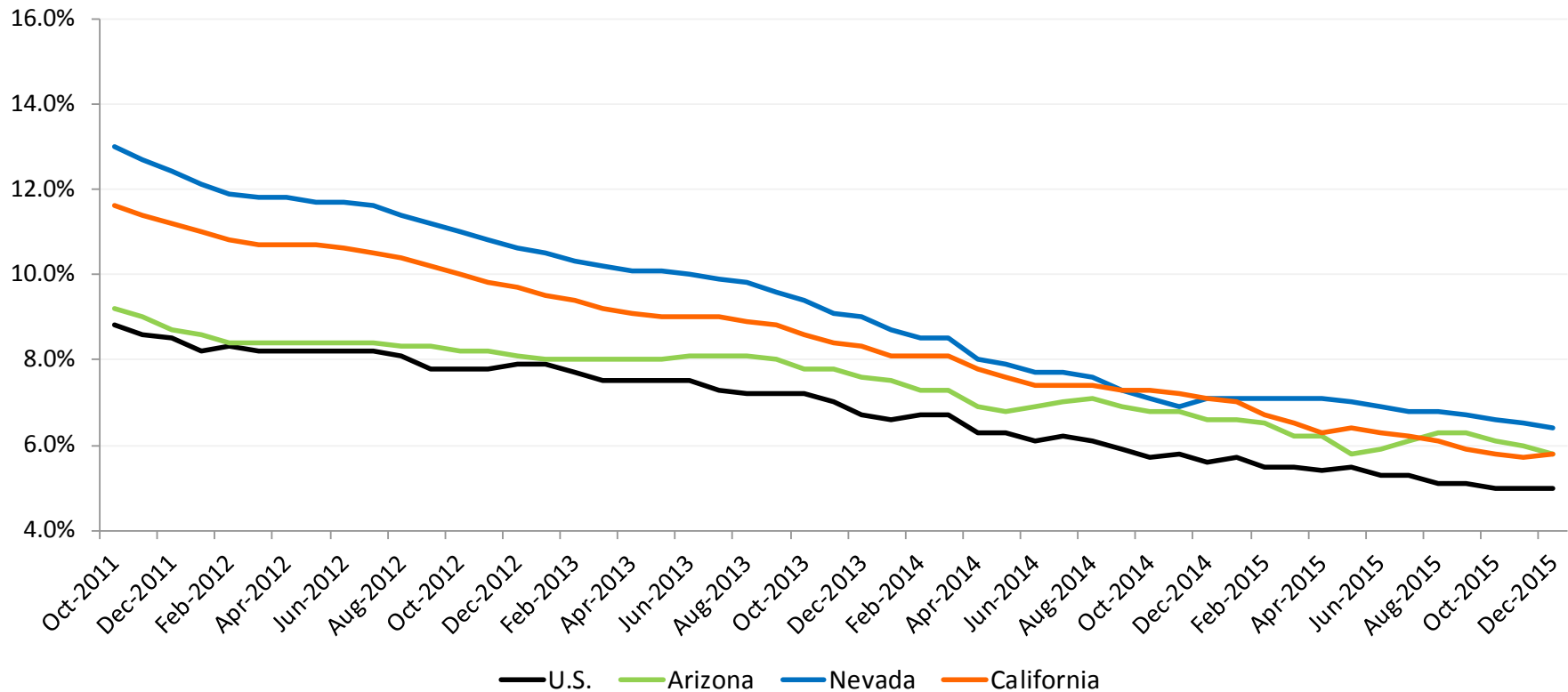
- For 2016, Company is projecting net customer growth of about 1.5%

Economic Overview

Service Area

Natural Gas Operations

Unemployment Rate
Seasonally Adjusted Data



Economic Overview

Service Area

Natural Gas Operations

Employment Growth

As of December

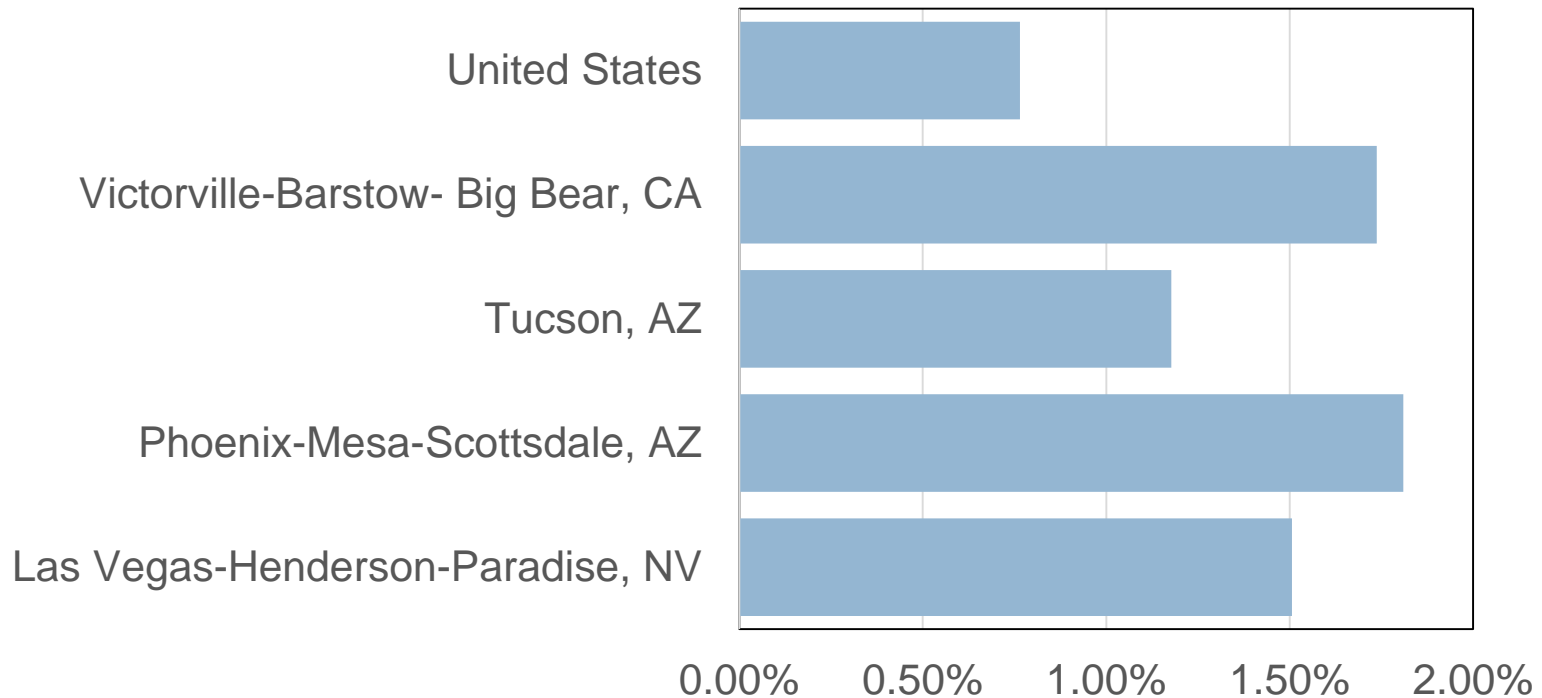
2014

2015

Southern California	2.0%	3.6%
Nevada	2.3%	2.0%
Arizona	2.6%	2.5%

Projected Population Growth Service Territories

Projected Population Annual Growth Rates 2016 - 2026

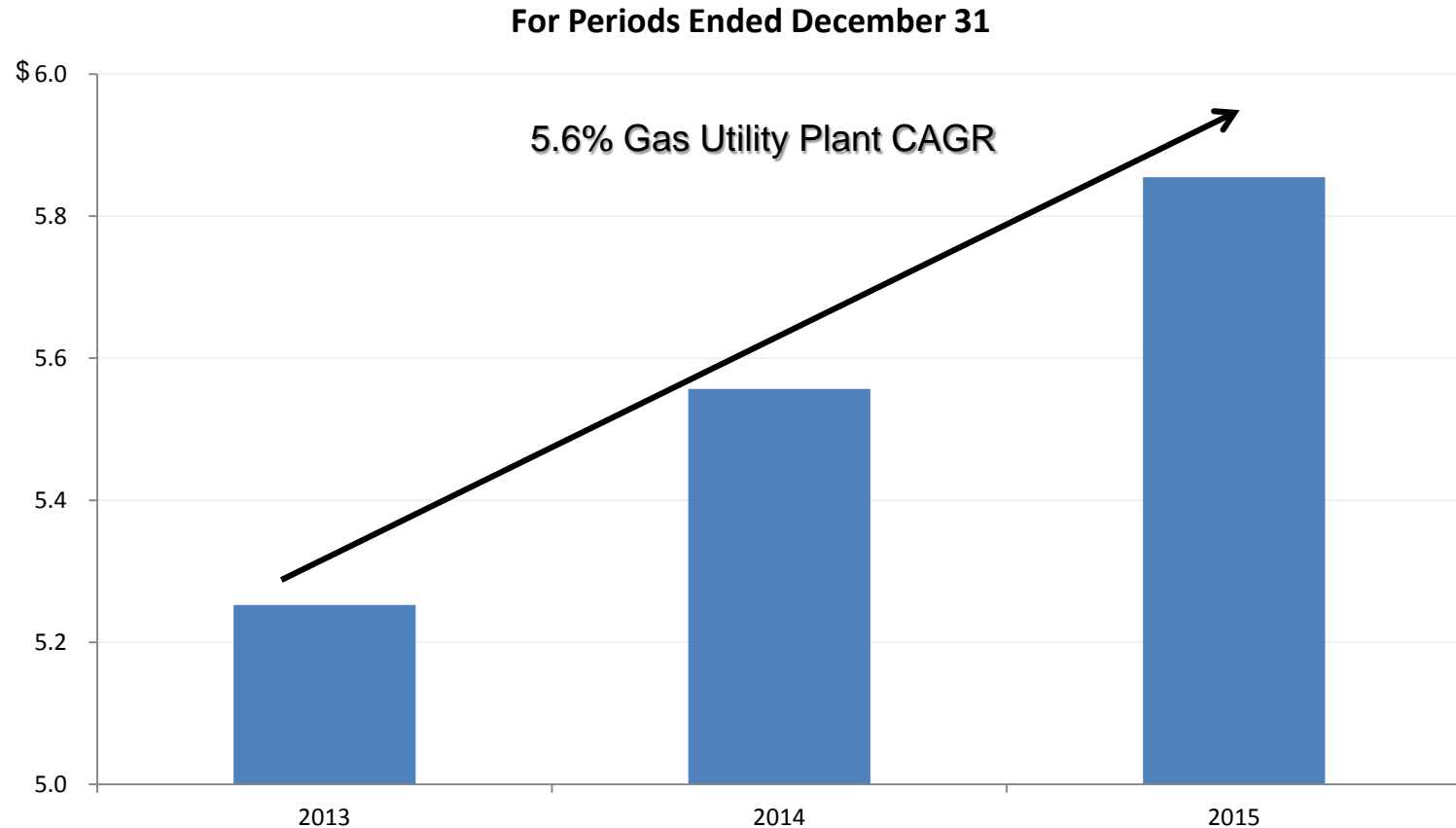


Source: IHS Global Insight

Gas Utility Plant - Growth

Natural Gas Operations

(In billions)

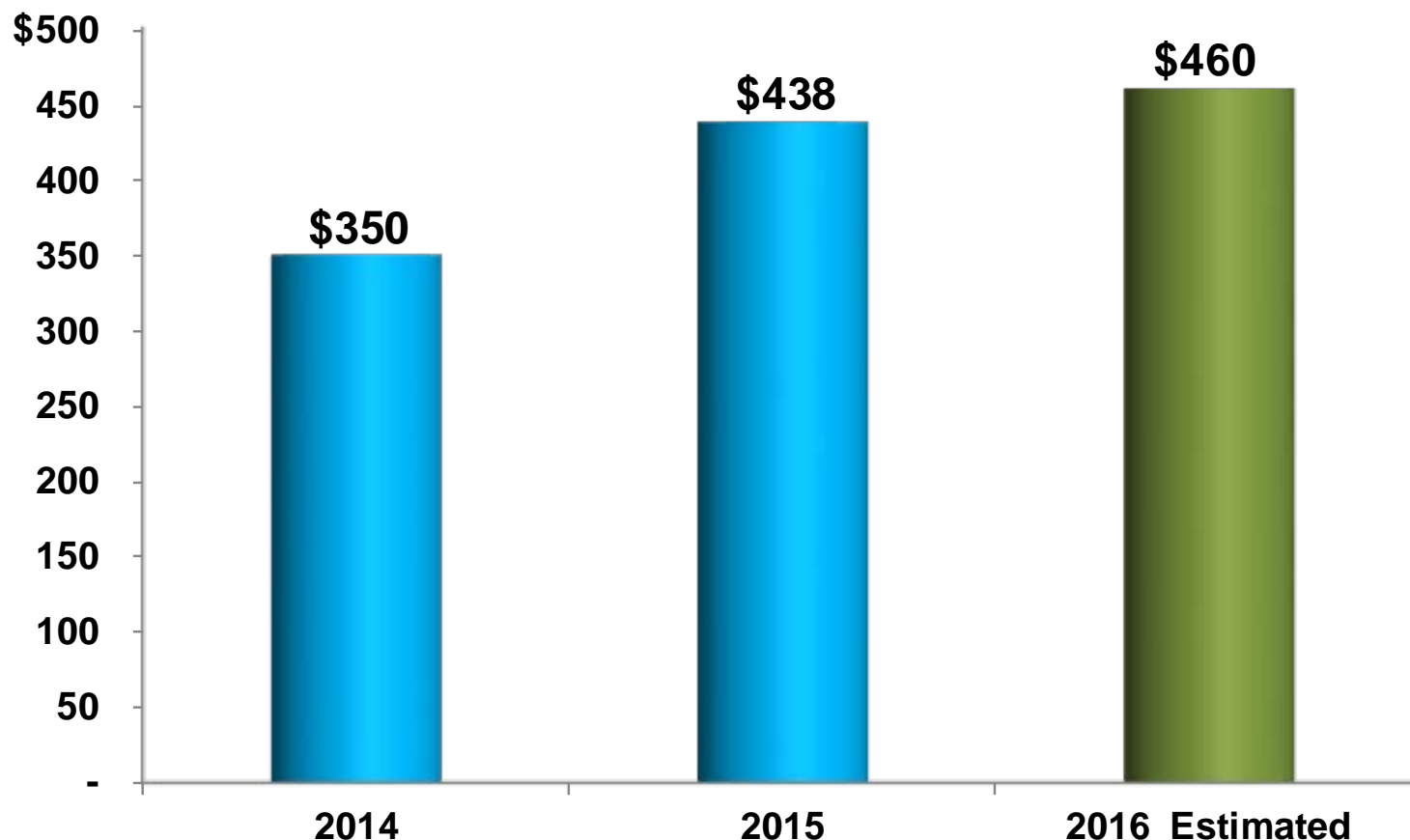


CAGR = compound annual growth rate

Capital Expenditures

Natural Gas Operations

(In millions)



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

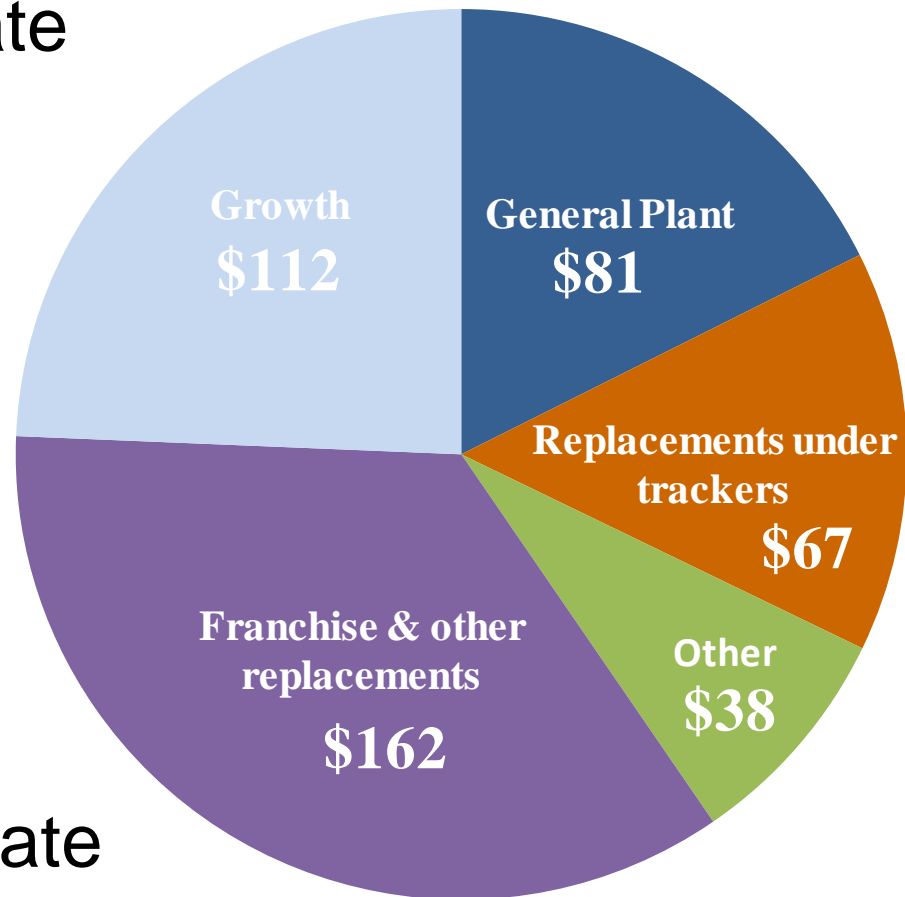
Capital Expenditures

Natural Gas Operations

(In millions)

➤ 2016 total estimate

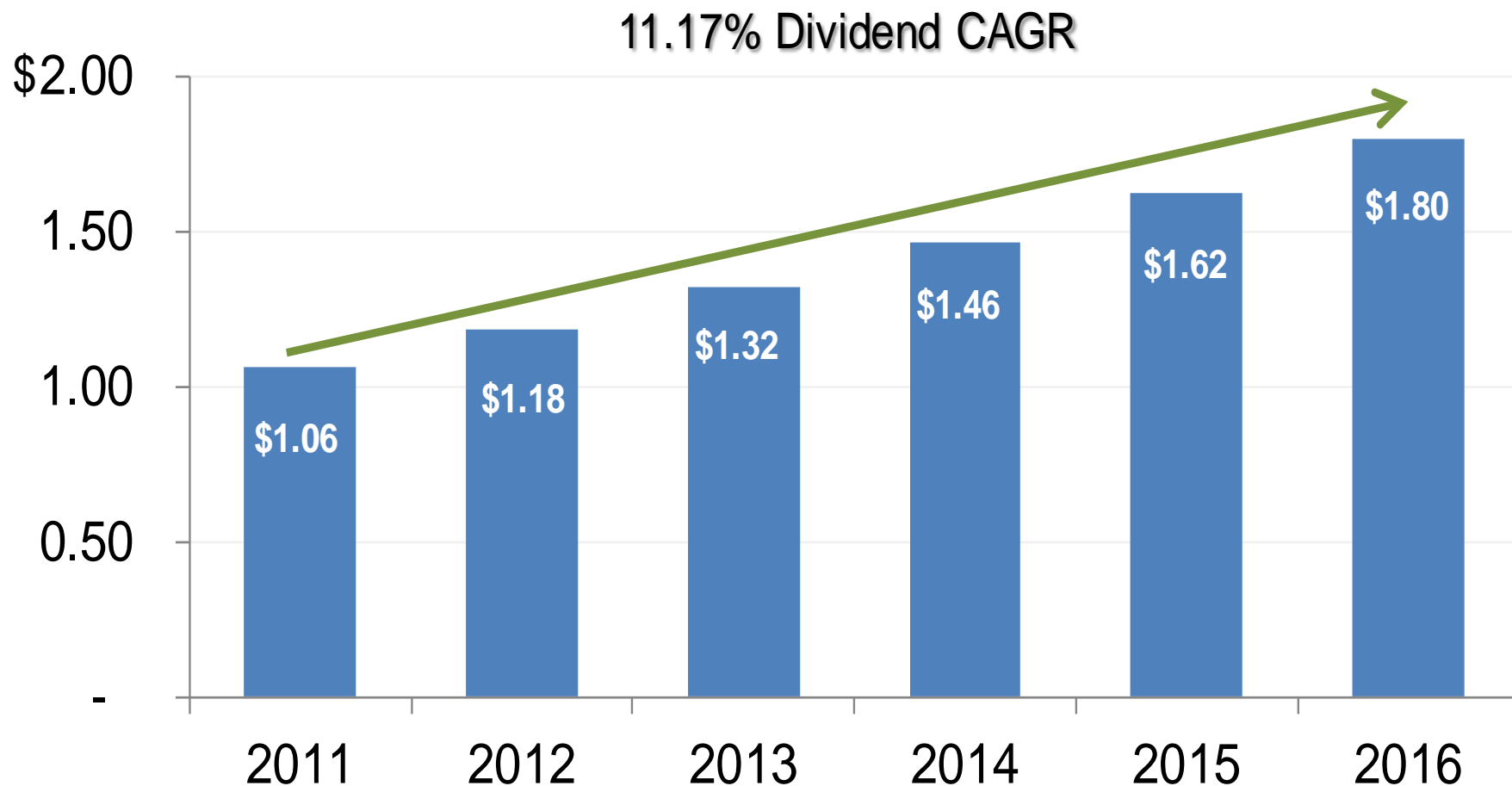
– \$460 million



➤ 2016-2018 estimate

– \$1.4 billion to \$1.6 billion

Dividend Growth



CAGR = compound annual growth rate

2016 Expectations

Natural Gas Operations

- Operating margin increase of nearly 3% via combination of customer growth (similar to 2015), infrastructure recovery mechanisms, expansion projects, and California attrition
 - 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 be relatively flat
 - Higher general & incremental costs offset by pension cost decrease
- Depreciation & general taxes increase consistent with gas plant growth plus impact of NV conservation programs noted above
- Operating income to increase by 4% to 5%
- Average normal annual COLI returns of \$3 million – \$5 million
 - Continue to be subject to volatility, evidenced by swing over last two years
- Net interest deductions for 2016 increase of \$5 million - \$7 million due to capital expenditure financing requirements

2016 Expectations

Construction Services



- Revenues 3% to 7% greater than 2015 levels
 - Primarily driven by strong base of large utility clients, many with multi-year pipe replacement programs, positioned to sustain & grow business
- Operating income approximating 5.5% to 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

Strategic Focus

- Remain focused on the core elements of our business
 - Safety and customer satisfaction
 - Maintain trusted relationships with regulators
 - Retain a skilled and motivated work force
 - Control costs and improve productivity
 - Foster growth across our business segments
- Execute business initiatives
- Manage with a long-term view of success

APPENDIX



Centuri Construction Group

Construction Services



➤ NPL Construction Company

- Full-service underground piping contractor
- Operates in 20 major markets in the U.S.



➤ Link-Line Contractors

- Largest natural gas distribution contractor in Canada with approximately 700 employees
- Primarily operates in Ontario province
- Founded in 1994



Centuri Construction Group

Construction Services



➤ W.S. Nicholls Construction

- Provides fabrication and multi-trade operations for industrial projects
- Operations in Ontario province and western Canada
- Founded in 1996



➤ Brigadier Pipelines

- Performs midstream construction in the United States, primarily in Pennsylvania
- Founded in 2012



SOUTHWEST GAS

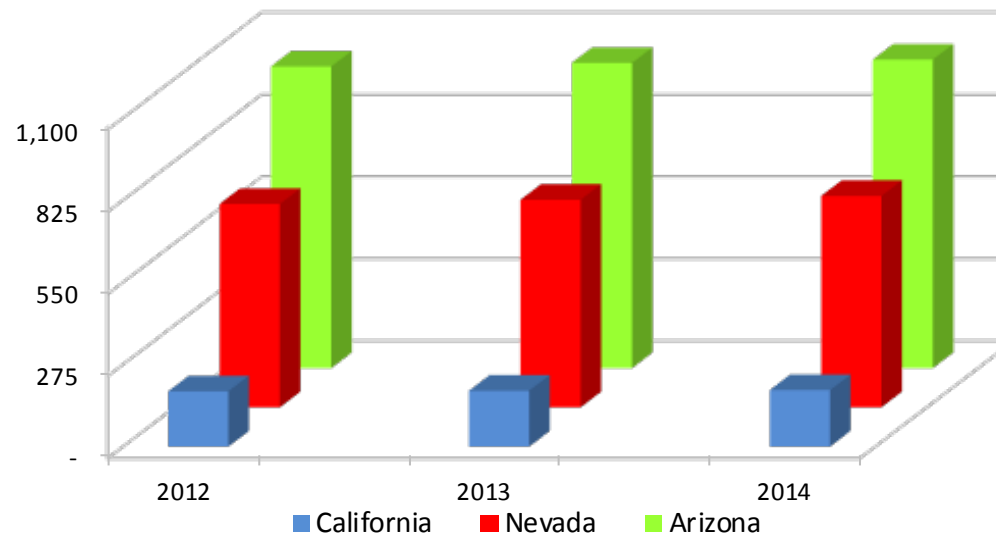
Customers by State

Natural Gas Operations

(In thousands)

As of December 31,

	2013	2014	2015
Arizona	1,022	1,033	1,045
Nevada	695	708	720
California	187	189	191
Total	1,904	1,930	1,956



Purchased Gas Adjustment (PGA) Balances

Natural Gas Operations
(In millions)

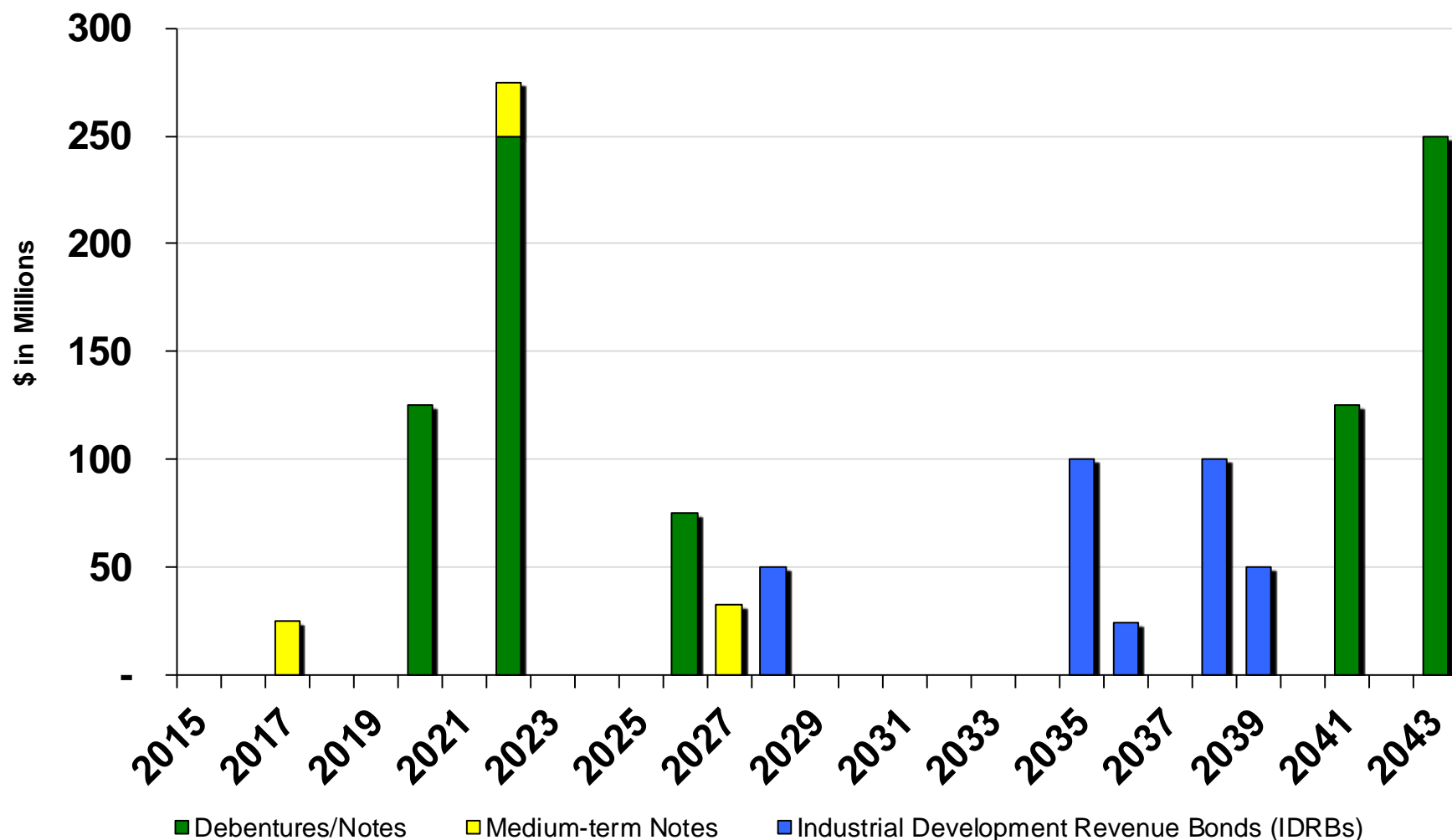
	As of December 31,	
	2014	2015
Arizona	\$ 48.4	\$ (3.5)
Northern Nevada	10.2	(2.3)
Southern Nevada	20.4	(39.8)
California	8.6	3.6
Total Receivable	<u>\$ 87.6</u>	<u>\$ (42.0)</u>

Liquidity

Natural Gas Operations

- \$300 million revolving credit facility which expires in March 2020
 - \$150 million of the facility designated long-term debt and remaining \$150 million as working capital
- \$50 million commercial paper program supported by revolving credit facility
- At December 31, 2015
 - \$50 million of commercial paper, \$118 million of LIBOR loans
 - Available borrowing capacity of \$132 million
- Management believes the facility size is adequate

Long-Term Debt Maturity Schedule^[1] at December 31, 2015



[1] Does not include the long-term portion of the \$300 million Revolving Credit Facility, due March 2020, or debt outstanding of Centuri Construction Group subsidiary.

Authorized Rate Base and Rates of Return at December 31, 2015

<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	6.47 %	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.

Capital Structure

(In millions, except ratios)

Capitalization at December 31,	2011	2012	2013	2014	2015
Equity¹	\$ 1,225	\$ 1,308	\$ 1,412	\$ 1,506	\$ 1,608
Long-Term Debt²	1,254	1,319	1,393	1,651	1,571
Total Permanent Capital	\$ 2,479	\$ 2,627	\$ 2,805	\$ 3,157	\$ 3,179
Capitalization ratios					
Equity¹	49.4%	49.8%	50.4%	47.7%	50.6%
Long-Term Debt²	50.6%	50.2%	49.6%	52.3%	49.4%
Total Permanent Capital	100.0%	100.0%	100.0%	100.0%	100.0%

¹Includes redeemable noncontrolling interest

²Includes current maturities of long-term debt

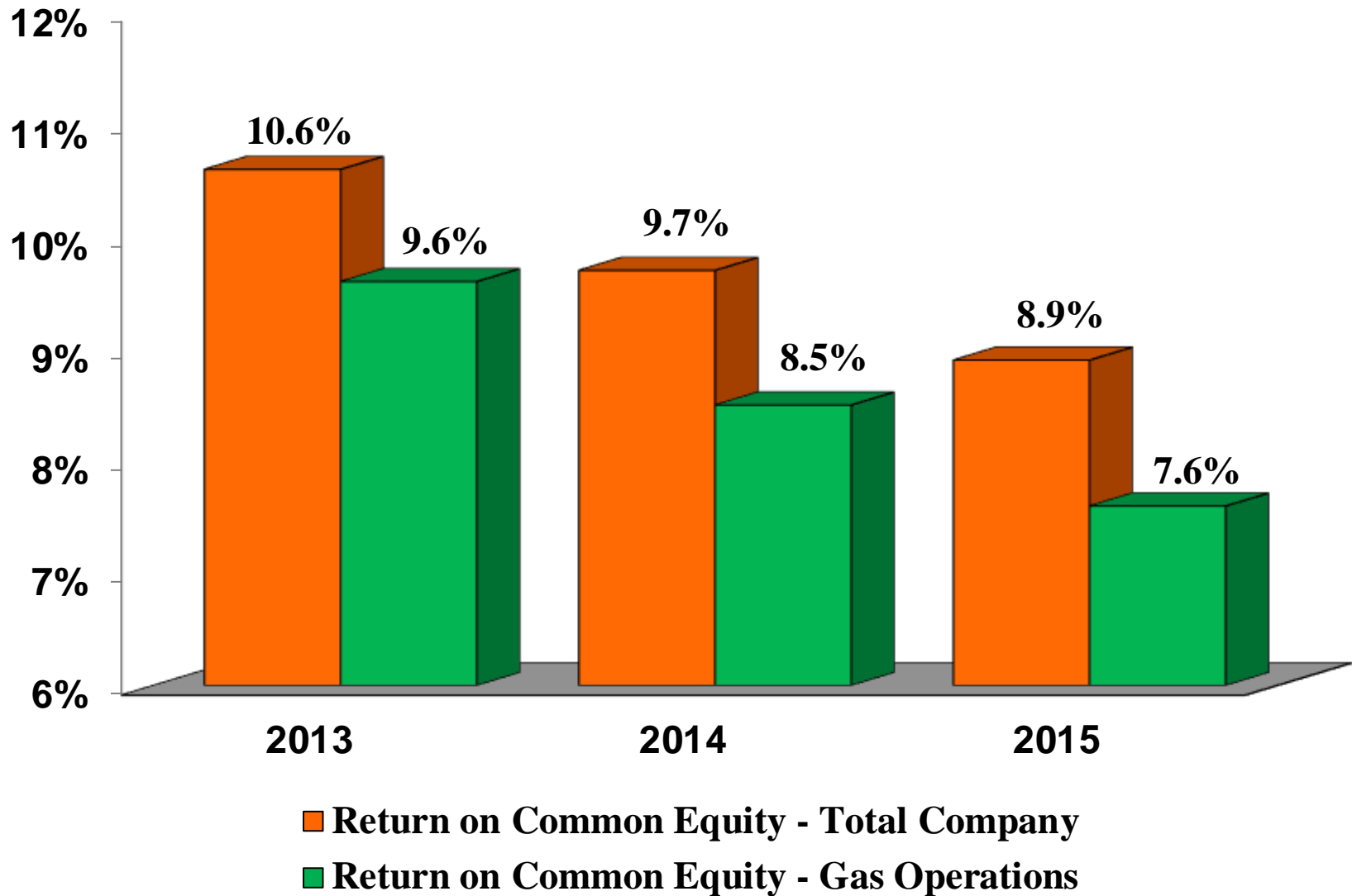
Investment Grade Credit Ratings

	<u>Rating</u>	<u>Reaffirmed</u>
<i>Moody's</i>		
• Senior Unsecured Debt:	A3	January 2016
• Outlook:	Stable	
<i>Standard & Poor's</i>		
• Senior Unsecured Debt:	BBB+	January 2016
• Outlook:	Stable	
<i>Fitch</i>		
• Senior Unsecured Debt:	A	July 2015
• Outlook:	Stable	

Dividend Policy

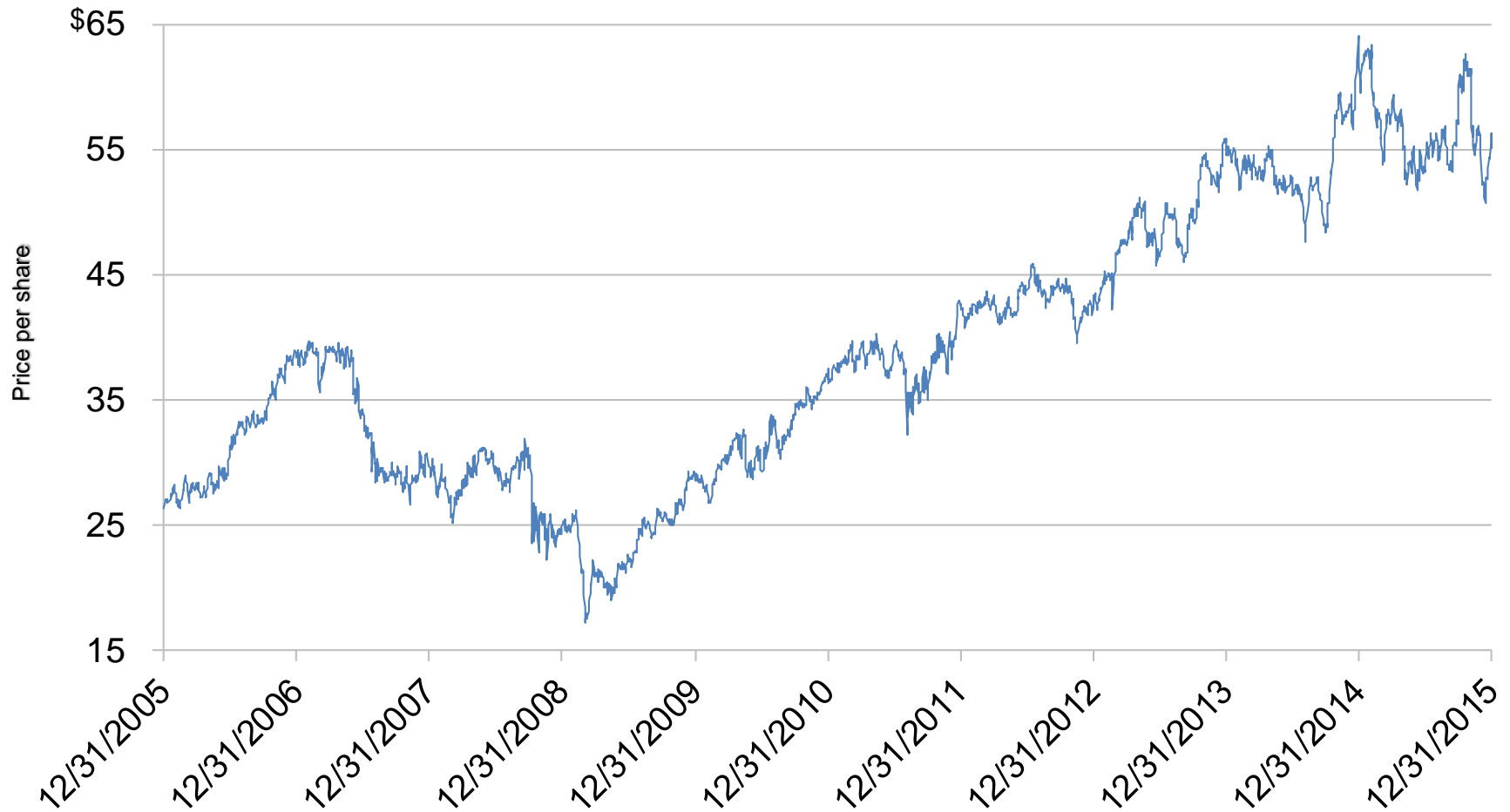
The Board's policy is to target a dividend payout ratio that allows the Company to maintain its strong credit ratings and effectively fund its rate base growth and is consistent with the local distribution company peer group average. The timing and amount of any increases will be based upon the Board's continual review of our dividend rate in the context of the performance of the Company's two operating segments and their future growth prospects.

Return on Common Equity



Stock Price Graph

Southwest Gas Corporation
Common Stock Closing Price
December 31, 2005 – December 31, 2015



Comparative Total Returns

Total Returns for Periods Ended December 31, 2015

	1-Year	3-Year	5-Year	10-Year
Southwest Gas	(8.20%)	12.15%	11.47%	10.82%
S&P 600 Small Gas Index	11.75%	16.70%	11.86%	11.63%
Dow Jones Utilities	(3.04%)	12.59%	11.65%	7.70%
S&P 500 Index	1.38%	15.11%	12.54%	7.29%

Total Return = Price appreciation plus gross dividends reinvested