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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $1 par value	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.
9.125% Trust Originated Preferred Securities	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.
Stock Purchase Rights	New York Stock Exchange, Inc. Pacific Stock Exchange, Inc.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

AGGREGATE MARKET VALUE OF THE VOTING STOCK HELD BY NONAFFILIATES OF THE REGISTRANT:
$557,303,693 at March 16, 1998
THE NUMBER OF SHARES OUTSTANDING OF COMMON STOCK:
Common Stock, $1 Par Value, 27,521,170 shares as of March 16, 1998

DOCUMENTS INCORPORATED BY REFERENCE

DESCRIPTION	PART INTO WHICH INCORPORATED
Annual Report to Shareholders for the Year Ended December 31, 1997	Parts I, II and IV
Proxy Statement dated March 31, 1998	Part III

TABLE OF CONTENTS

PART I

PART I

ITEM 1. BUSINESS

The registrant, Southwest Gas Corporation (the Company), is incorporated under the laws of the State of California effective March 1931. The executive offices of the Company are located at 5241 Spring Mountain Road, P.O. Box 98510, Las Vegas, Nevada, 89193-8510, telephone number (702) 876-7237.

The Company is principally engaged in the business of purchasing, transporting, and distributing natural gas to residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California (Southwest or the natural gas operations segment).

In April 1996, the Company acquired all of the outstanding stock of Northern Pipeline Construction Co. (Northern or the construction services segment) pursuant to a definitive agreement dated November 1995. The Company issued approximately 1,439,000 shares of common stock valued at $24 million in connection with the acquisition. The construction services segment provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

In July 1996, the Company completed the sale of the assets and liabilities of PriMerit Bank, Federal Savings Bank (PriMerit), a wholly owned subsidiary, to Norwest Corporation (Norwest) for $191 million pursuant to a definitive agreement dated January 1996. For consolidated financial reporting purposes, the financial services activities are disclosed as discontinued operations.

Financial information with respect to industry segments is included in Note 13 of the Notes to Consolidated Financial Statements which is included in the 1997 Annual Report to Shareholders and is incorporated herein by reference.

NATURAL GAS OPERATIONS

GENERAL DESCRIPTION

Southwest is subject to regulation by the Arizona Corporation Commission (ACC), the Public Utilities Commission of Nevada (PUCN), and the California Public Utilities Commission (CPUC). These commissions regulate public utility rates, practices, facilities, and service territories in their respective states. The CPUC also regulates the issuance of all securities by the Company, with the exception of short-term borrowings. Certain accounting practices, transmission facilities, and rates are subject to regulation by the Federal Energy Regulatory Commission (FERC).

Southwest purchases, transports, and distributes natural gas to 1,151,000 residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. There were 59,000 customers added to the system during 1997.

The table below lists Southwest's percentage of operating margin (operating revenues less net cost of gas) by major customer class for the years indicated:

FOR THE YEAR ENDED	RESIDENTIAL AND SMALL COMMERCIAL	OTHER SALES CUSTOMERS	TRANSPORTATION
December 31, 1997	83%	5%	12%
December 31, 1996	80	6	14
December 31, 1995	79	7	14

Southwest is not dependent on any one or a few customers to the extent that the loss of any one or several would have a significant adverse impact on earnings.

Transportation of customer-secured gas to end-users on the Southwest system accounted for 53 percent of total system throughput in 1997. Although the volumes were significant, these customers provide a much smaller proportionate share of operating margin. In 1997, customers who utilized this service transported 103 million dekatherms.

The demand for natural gas is seasonal. Variability in weather from normal temperatures can materially impact results of operations. It is the opinion of management that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in Southwest operations. Also, earnings for interim periods can be significantly affected by the timing of general rate relief.

RATES AND REGULATION

Rates that Southwest is authorized to charge its distribution system customers are determined by the ACC, CPUC, and PUCN in general rate cases and are derived using rate base, cost of service, and cost of capital experienced in a historical test year, as adjusted in Arizona and Nevada, and projected for a future test year in California. The FERC regulates the northern Nevada transmission and liquefied natural gas (LNG) storage facilities of Paiute Pipeline Company (Paiute), a wholly owned subsidiary, and the rates it charges for transportation of gas directly to certain end-users and to various local distribution companies (LDCs). The LDCs transporting on the Paiute system are: Sierra Pacific Power Company (serving Reno and Sparks, Nevada), Washington Water Power Company (serving South Lake Tahoe, California), and Southwest Gas Corporation (serving North Lake Tahoe, California and various locations throughout northern Nevada).

Rates charged to customers vary according to customer class and are set at levels allowing for the recovery of all prudently incurred costs, including a return on rate base sufficient to pay interest on debt, preferred securities distributions, and a reasonable return on common equity. Rate base consists generally of the original cost of utility plant in service, plus certain other assets such as working capital and inventories, less accumulated depreciation on utility plant in service, net deferred income tax liabilities, and certain other deductions. Rate schedules in all of the Southwest service areas contain purchased gas adjustment (PGA) clauses which allow Southwest to file for rate adjustments as the cost of purchased gas changes. Generally, Southwest tariffs provide for annual adjustment dates for changes in purchased gas costs. However, Southwest may request to adjust its rates more often than once each year, if conditions warrant. These changes have no direct impact on profit margin. Filings to change rates in accordance with PGA clauses are subject to audit by state regulatory commission staffs. Information with respect to recent PGA filings is included in the Rates and Regulatory Proceedings section of Management's Discussion and Analysis (MD&A), which is included in the 1997 Annual Report to Shareholders.

The table below lists the docketed general rate filings initiated and/or completed within each ratemaking:

RATEMAKING AREA	TYPE OF FILING	MONTH FILED	MONTH FINAL RATES EFFECTIVE
Arizona:			
Central and Southern.......	General rate case	November 1996	September 1997
California:			
Northern...................	Operational attrition	November 1997	January 1998
Nevada:			
Northern and Southern......	General rate case	December 1995	July 1996
FERC:			
Paiute.....................	General rate case	July 1996	January 1997

- ---------------

Recent regulatory and legislative developments -- natural gas industry. In 1997, the Nevada Legislature passed, and the Governor signed into law, Assembly Bill (AB) 366. AB 366 provides the statutory framework for restructuring both the natural gas and electric industries in the State of Nevada to allow competition. The legislature left most of the decision making on restructuring to the PUCN. In addition to several organizational changes, AB 366 requires that the PUCN create an alternative plan of regulation for natural gas utilities no later than July 1, 1998. The alternative plan would allow the PUCN to determine if a service is competitive, discretionary or potentially competitive and exempt that service from normal pricing and ratemaking regulations. The PUCN has begun the process of developing the regulations to implement the alternative plan of regulation. Southwest, other utility companies, and many other interested parties are participating in the rulemaking process.

In January 1998, the CPUC opened a rulemaking proceeding designed to reform the California natural gas industry by expanding opportunities for residential and small commercial customers to have access to competing natural gas suppliers. To accomplish this, the CPUC requested comments from interested parties, such as Southwest, to assess the current market and regulatory framework for the California natural gas industry and to develop reforms which emphasize market-oriented policies to benefit all California natural gas consumers. Southwest filed written comments with the CPUC in February 1998 addressing such issues as regulatory streamlining, unbundling, consumer protection and other competitive issues. Hearings on these issues and additional comment periods are scheduled by the CPUC throughout 1998.

In late 1996, the ACC unanimously voted to phase in electric supply competition for investor-owned utilities starting in January 1999. Natural gas utilities in Arizona are not directly impacted by this ruling. However, natural gas related initiatives are expected to follow.

COMPETITION

Electric utilities are Southwest's principal competitors for the residential and small commercial markets throughout its service areas. Competition for space heating, general household, and small commercial energy needs generally occurs at the initial installation phase when the customer/builder typically makes the decision as to which type of equipment to install and operate. The customer will generally continue to use the chosen energy source for the life of the equipment. As a result of its success in these markets, Southwest has experienced consistent growth among the residential and small commercial customer classes.

Unlike residential and small commercial customers, certain large commercial, industrial, and electric generation customers have the capability to switch to alternative energy sources. Southwest has been successful in retaining these customers by setting rates at levels competitive with alternative energy sources such as electricity, fuel oils, and coal. As a result, management does not anticipate any material adverse impact on its operating margin from fuel switching.

Southwest continues to compete with interstate transmission pipeline companies, such as El Paso Natural Gas Company (El Paso), Kern River Gas Transmission Company (Kern River), and Tuscarora Gas Transmission Company, to provide service to large end-users. End-use customers located in close proximity to these interstate pipelines pose a potential bypass threat and, therefore, require Southwest to closely monitor each customer situation and provide competitive service in order to retain the customer.

Southwest has maintained an intensive effort to mitigate these competitive threats through the use of discounted transportation contract rates, special long-term contracts with electric generation and cogeneration customers, and new tariff programs. One such program provides an opportunity for potential bypass customers in Arizona and all transportation customers in Nevada to purchase natural gas-related services as a bundled package, including the procurement of gas supply. Southwest enters into gas supply contracts for eligible customers, which are not included in its system supply portfolio, and provides nomination and balancing services on behalf of the customer. This program, as well as other competitive response initiatives and otherwise competitive rates, has helped mitigate the financial impact from the threat of bypass and the potential loss of margin currently earned from large customers.

DEMAND FOR NATURAL GAS

Deliveries of natural gas by Southwest are made under a priority system established by each regulatory commission having jurisdiction over Southwest. The priority system is intended to ensure that the gas requirements of higher-priority customers, primarily residential customers and nonresidential customers who use 500 therms of gas per day or less, are fully satisfied on a daily basis before lower-priority customers, primarily electric utility and large industrial customers able to use alternative fuels, are provided any quantity of gas or capacity.

Demand for natural gas is greatly affected by temperature. On cold days, use of gas by residential and commercial customers may be as much as eight times greater than on warm days because of increased use of gas for space heating. To fully satisfy this increased high-priority demand, gas is withdrawn from storage, or peaking supplies are purchased from suppliers. If necessary, service to interruptible lower-priority customers may be curtailed to provide the needed delivery system capacity. Southwest maintains no backlog on its orders for gas service.

Southwest has entered the residential cooling market by working with the manufacturers of gas air conditioning units and the builders of new residential units in the Arizona and southern Nevada service areas. Gas air conditioning represents an emerging market with the long-term potential for Southwest to smooth its currently seasonal earnings.

Natural gas vehicles (NGVs) represent another nontraditional source of demand for natural gas. Southwest encourages the use of NGVs throughout its service territories. As of December 31, 1997, there were 41 public- and nonpublic-access fueling stations and approximately 5,000 NGVs in use throughout Southwest service territories. As more public fueling stations come on-line and stricter vehicle emission standards are adopted, the demand for NGVs should increase.

NATURAL GAS SUPPLY

Southwest is responsible to acquire (purchase) and arrange delivery of (transport) natural gas to its system for all sales customers. Southwest believes that natural gas supplies and pipeline capacity for transportation will remain plentiful and readily available.

The primary objective of Southwest with respect to gas supply is to ensure that adequate, as well as economical, supplies of natural gas are available from reliable sources. Gas is acquired from a wide variety of sources, including suppliers on the spot market and those who provide firm supplies over short-term and longer-term durations. During 1997, Southwest acquired gas supplies from over 70 suppliers. This practice provides security against nonperformance by any one supplier.

Balancing firm supply assurances against the associated costs dictates a continually changing natural gas purchasing mix within the supply portfolios. The current purchasing strategy of Southwest primarily involves competitively-bid firm volumetric contracts with variable or index-based pricing. This strategy allows Southwest to acquire gas at current market prices but can result in price volatility. In managing its gas supply portfolio, Southwest does not currently utilize derivative financial instruments, but may do so in the future to hedge against possible price increases and help mitigate the regulatory risk of gas cost disallowance during periods of rising prices. Any such change would be undertaken only with regulatory commission authorization.

Natural gas prices have historically demonstrated seasonal volatility with higher prices in the heating season and lower prices during the summer or off-peak consumption period. The latter part of 1996 and early 1997 witnessed particularly steep price increases, whereas the most recent winter period experienced more typical seasonal price volatility. See additional discussion regarding the effect of changing natural gas prices included in the Capital Resources and Liquidity section of MD&A, which is included in the 1997 Annual Report to Shareholders.

Gas supplies for the Southwest southern system (Arizona, southern Nevada, and southern California properties) are primarily obtained from producing regions in New Mexico (San Juan basin), Texas (Permian basin), and Rocky Mountain areas. For its northern system (northern Nevada and northern California properties), Southwest primarily obtains gas from Rocky Mountain producing areas and from Canada.

Southwest arranges for transportation of gas to its Arizona, Nevada, and California service territories through the pipeline systems of El Paso, Kern River, Northwest Pipeline Corporation, and Southern California Gas Company. Supply and pipeline capacity availability on both short- and long-term bases are continually monitored by Southwest to ensure the continued reliability of service to its customers. Southwest currently receives firm transportation service, both on a short- and long-term basis, for all of its service territories on the four pipeline systems noted above, and has interruptible contracts in place that allow additional capacity to be acquired as needed.

The current level of contracted firm interstate capacity is sufficient to serve each of the service territories. As the need arises to acquire additional capacity on one of the interstate pipeline transmission systems, primarily due to customer growth, Southwest considers available options to obtain the capacity, either through the use of firm contracts with a pipeline company or by purchasing capacity on the open market. While firm contracts provide stability and guaranteed rights to capacity, they are generally a more expensive alternative.

Southwest continues to evaluate natural gas storage as an option to enable it to take advantage of seasonal price differentials in obtaining natural gas from a variety of sources to meet the growing demand of its customers.

ENVIRONMENTAL MATTERS

Federal, state, and local laws and regulations governing the discharge of materials into the environment have had little direct impact upon Southwest. Environmental efforts, with respect to matters such as protection of endangered species and archeological finds, have increased the complexity and time required to obtain pipeline rights-of-way and construction permits. However, increased environmental legislation and regulation are also beneficial to the natural gas industry. Because natural gas is one of the most environmentally safe fossil fuels currently available, its use helps energy users to comply with stricter environmental standards.

EMPLOYEES

At December 31, 1997, the natural gas operations segment had 2,447 regular full-time equivalent employees. Southwest believes it has a good relationship with its employees. No employees are represented by a union.

Reference is hereby made to Item 10 in Part III of this report on Form 10-K for information relative to the executive officers of the Company.

CONSTRUCTION SERVICES

Northern Pipeline Construction Co. (Northern or the construction services segment) is a full-service underground piping contractor which provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems. Northern contracts primarily with LDCs to install, repair, and maintain energy distribution systems from the town border station to the end-user meter. The primary focus of business operations is main and service replacement as well as new business installations. Construction work varies from relatively small projects to the piping of entire communities. Construction activity is seasonal. Peak construction periods are the summer and fall months in colder climate areas, such as the Midwest. In the warmer climate areas, such as the southwestern United States, construction continues year round.

Northern business activities are often concentrated in utility service territories where existing gas lines are scheduled for replacement. An LDC will typically contract with Northern to provide pipe replacement services and new line installations. Contract terms generally specify unit price or fixed-price arrangements. Unit price contracts establish prices for all of the various services to be performed during the contract period. These contracts often have annual pricing reviews. During 1997, more than 96 percent of revenue was earned under unit price contracts. As of December 31, 1997 no significant backlog exists with respect to outstanding construction contracts.

Competition within the industry is limited to several regional competitors in what can be characterized as a largely fragmented industry. Northern currently operates in approximately 15 major markets nationwide. Its customers are the primary LDCs in those markets. Construction companies typically depend on a few customers for their business. During 1997, Southwest accounted for 31 percent of Northern revenues. No other customers contributed more than 10 percent of revenues.

Employment fluctuates between seasonal construction periods, which are normally heaviest in the summer and fall months. At December 31, 1997, Northern had 862 regular full-time equivalent employees.

Employment peaked in August 1997 when there were 1,508 employees. The majority of the employees are represented by collective bargaining agreements which is typical of the utility construction industry.

Operations are conducted from 17 field locations with corporate headquarters located in Phoenix, Arizona. All buildings are leased from third parties. The lease terms are typically two to three years. Field location facilities consist of a small building for repairs and acreage to store equipment.

Northern has acquired and professionally maintained state-of-the-art work equipment required to ensure high quality performance and maximum efficiency. Innovative technology is utilized to continuously improve productivity, efficiency, and customer satisfaction. Northern has a strict policy for maintaining its equipment and also adheres to a replacement program for the majority of key equipment in order to minimize downtime and preserve resale values.

ITEM 2. PROPERTIES

The plant investment of Southwest consists primarily of transmission and distribution mains, compressor stations, peak shaving/storage plants, service lines, meters, and regulators which comprise the pipeline systems and facilities located in and around the communities served. Southwest also includes other properties such as land, buildings, furnishings, work equipment, and vehicles in plant investment. The northern Nevada and northern California properties of Southwest are referred to as the northern system; the Arizona, southern Nevada, and southern California properties are referred to as the southern system. Several properties are leased by Southwest, including an LNG storage plant on its northern Nevada system and a portion of the corporate headquarters office complex located in Las Vegas, Nevada. Total gas plant, exclusive of leased property, at December 31, 1997, was $1.9 billion, including construction work in progress. It is the opinion of management that the properties of Southwest are suitable and adequate for its purposes.

Substantially all gas main and service lines of Southwest are constructed across property owned by others under right-of-way grants obtained from the record owners thereof, on the streets and grounds of municipalities under authority conferred by franchises or otherwise, or on public highways or public lands under authority of various federal and state statutes. None of the numerous county and municipal franchises are exclusive, and some are of limited duration. These franchises are renewed regularly as they expire, and Southwest anticipates no serious difficulties in obtaining future renewals.

With respect to the right-of-way grants, Southwest has had continuous and uninterrupted possession and use of all such rights-of-way, and the associated gas mains and service lines, commencing with the initial stages of the construction of such facilities. Permits have been obtained from public authorities in certain instances to cross, or to lay facilities along, roads and highways. These permits typically are revocable at the election of the grantor, and Southwest occasionally must relocate its facilities when requested to do so by the grantor. Permits have also been obtained from railroad companies to cross over or under railroad lands or rights-of-way, which in some instances require annual or other periodic payments and are revocable at the grantors' elections.

Southwest operates two primary pipeline transmission systems: (i) a system owned by Paiute, a wholly owned subsidiary, extending from the Idaho-Nevada border to the Reno, Sparks, and Carson City areas and communities in the Lake Tahoe area in both California and Nevada and other communities in northern and western Nevada; and (ii) a system extending from the Colorado River at the southern tip of Nevada to the Las Vegas distribution area.

The map below shows the locations of Southwest's major facilities and major transmission lines, and principal communities to which Southwest supplies gas either as a wholesaler or distributor. The map also shows major supplier transmission lines that are interconnected with Southwest's systems.

[MAP]

[DESCRIPTION: Map of Arizona, Nevada, and California indicating the location of Southwest service areas. Service areas in Arizona include most of the central and southern areas of the state including Phoenix, Tucson, Yuma, and surrounding communities. Service areas in northern Nevada include Carson City, Yerington, Fallon, Lovelock, Winnemucca, and Elko. Service areas in southern Nevada include the Las Vegas valley (including Henderson and Boulder City) and Laughlin. Service areas in southern California include Barstow, Big Bear, Needles, and Victorville. Service areas in northern California include the north shore of Lake Tahoe and portions of Truckee. Companies providing gas transportation services for the Company are indicated by showing the location of their pipelines. Major transporters include El Paso Natural Gas Company, Kern River Gas Transmission Company, Northwest Pipeline Corporation, and Southern California Gas Company. The location of the Paiute Pipeline Company transmission corporation, and Southern California Gas Company. The location of the Paiute Pipeline Company transmission pipeline (extending from the Idaho/Nevada border to the Reno/Tahoe area) and Southwest's pipeline (extending from Laughlin/Bullhead City to the Las Vegas valley) are indicated. The LNG facility is located near Lovelock, Nevada.]

The information appearing in Part I, Item 1, page 5 with respect to the construction services segment is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS

The Company has been named as defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that no litigation to which the Company is subject will have a material adverse impact on its financial position or results of operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal markets on which the common stock of the Company is traded are the New York Stock Exchange and the Pacific Stock Exchange. At March 16, 1998, there were 25,723 holders of record of common stock, and the market price of the common stock was $20.25. The quarterly market price of and dividends on Company common stock required by this item are included in the 1997 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Information required by this item is included in the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item is included in the 1997 Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of Southwest Gas Corporation and Notes thereto, together with the report of Arthur Andersen LLP, Independent Public Accountants, are included in the 1997 Annual Report to Shareholders and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Identification of Directors. Information with respect to Directors is set forth under the heading "Election of Directors" in the definitive Proxy Statement dated March 31, 1998 which by this reference is incorporated herein.

(b) Identification of Executive Officers. The name, age, position and period position held during the last five years for each of the Executive Officers of the Company are as follows:

NAME	AGE	POSITION	PERIOD POSITION HELD
Michael O. Maffie	50	President and Chief Executive Officer	1993-Present
George C. Biehl	50	Senior Vice President/Chief Financial Officer and Corporate Secretary	1996-Present
		Senior Vice President and Chief Financial Officer	1993-1996
James P. Kane	51	Senior Vice President/Operations	1997-Present
		Vice President/Southern Arizona Division	1993-1997
James F. Lowman	51	Senior Vice President/Central Arizona Division	1993-Present
Dudley J. Sondeno	45	Senior Vice President/Chief Knowledge and Technology Officer	1993-Present
Edward S. Zub	49	Senior Vice President/Regulation and Product Pricing	1996-Present
		Vice President/Rates & Regulation	1993-1996

(c) Identification of Certain Significant Employees. None.

(d) Family Relationships. None of the Directors or Executive Officers are related to any other either by blood, marriage or adoption.

(e) Business Experience. Information with respect to Directors is set forth under the heading "Election of Directors" in the definitive Proxy Statement dated March 31, 1998, which by this reference is incorporated herein. All Executive Officers have held responsible positions with the Company for at least five years as described in (b) above.

(f) Involvement in Certain Legal Proceedings. None.

(g) Promoters and Control Persons. None.

Section 16(a) Beneficial Ownership Reporting Compliance. Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors, and persons who own more than ten percent of a registered class of equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC) and the New York Stock Exchange. Officers, directors, and beneficial owners of more than ten percent of any class of equity securities are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

The Company has adopted procedures to assist its directors and executive officers in complying with Section 16(a) of the Securities and Exchange Act of 1934, as amended, which includes assisting in the preparation of forms for filing. For 1997, all the required reports were filed timely. However, the Form 5 for Edward S. Zub identifies 105 shares of common stock held by his spouse that were omitted from his Form 3 filing in September 1996.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is set forth under the heading "Executive Compensation and Benefits" in the definitive Proxy Statement dated March 31, 1998, which by this reference is incorporated herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security Ownership of Certain Beneficial Owners. Information with respect to security ownership of certain beneficial owners is set forth under the heading "Securities Ownership by Nominees and Executive Officers" in the definitive Proxy Statement dated March 31, 1998, which by this reference is incorporated herein.

(b) Security Ownership of Management. Information with respect to security ownership of management is set forth under the heading "Securities Ownership by Nominees and Executive Officers" in the definitive Proxy Statement dated March 31, 1998, which by this reference is incorporated herein.

(c) Changes in Control. None.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is set forth under the heading "Certain Relationships and Related Transactions" in the definitive Proxy Statement dated March 31, 1998, which by this reference is incorporated herein.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

(1) The Consolidated Financial Statements of the Company (including the Report of Independent Public Accountants)

(2) All schedules have been omitted because the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

(3) See List of exhibits.

(b) Reports on Form 8-K.

The Company filed a Form 8-K, dated February 10, 1998, reporting summary financial information for the year ended December 31, 1997.

(c) See List of exhibits.

LIST OF EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
2.01(20)	Agreement between Southwest Gas Corporation, The Southwest Companies and PriMerit Bank, Federal Savings Bank, as sellers and Norwest Corporation as buyer, dated April 10, 1996, regarding sale of assets and liabilities of PriMerit Bank.
3(i)(26)	Restated Articles of Incorporation, as amended.
3(ii)	Amended Bylaws of Southwest Gas Corporation.
4.01(1)	Indenture between the Company and Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated August 1, 1986, with respect to 9% Series A and Series B and 8 3/4% Series C Debentures.
4.02(6)	First Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of October 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 9% Debentures, Series A, due 2011.
4.03(6)	Second Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of November 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 9% Debentures, Series B, due 2011.
4.04(7)	Third Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of December 1, 1986, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 8 3/4% Debentures, Series C, due 2011.
4.05(7)	Fourth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of February 1, 1987, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 10% Debentures, Series D, due 2017.
4.06(8)	Fifth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of August 1, 1988, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 10% Debentures, Series E, due 2013.
4.07(9)	Sixth Supplemental Indenture of the Company to Bank of America National Trust and Savings Association, as successor by merger to Security Pacific National Bank, as Trustee, dated as of June 16, 1992, supplementing and amending the Indenture dated as of August 1, 1986, with respect to 9 3/4% Debentures, Series F, due 2002.
4.08(10)	Indenture between Clark County, Nevada, and Bank of America Nevada as Trustee, dated September 1, 1992, with respect to the issuance of $130,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), $30,000,000 1992 Series A, due 2027, and $100,000,000 1992 Series B, due 2032.
4.09(11)	Indenture between Clark County, Nevada, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of $75,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), 1993 Series A, due 2033.
4.10(11)	Indenture between City of Big Bear Lake, California, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of $50,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation Project), 1993 Series A, due 2028.
4.11(21)	Indenture between the Company and Harris Trust and Savings Bank dated July 15, 1996, with respect to Debt Securities.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
4.12(22)	First Supplement Indenture of the Company to Harris Trust and Savings Bank dated August 1, 1996, supplementing and amending the Indenture dated as of July 15, 1996, with respect to 7 1/2% and 8% Debentures, due 2006 and 2026, respectively.
4.13(24)	Second Supplemental Indenture of the Company to Harris Trust and Savings Bank dated December 30, 1996, supplementing and amending the Indenture dated as of July 15, 1996, with respect to Medium-Term Notes.
4.14(3)	Certificate of Trust of Southwest Gas Capital I.
4.15(15)	Amended and Restated Declaration of Trust of Southwest Gas Capital I.
4.16(15)	Form of Preferred Security (attached as Annex I to Exhibit A to the Amended and Restated Declaration of Trust of Southwest Gas Capital I included as Exhibit 4.15 hereto).
4.17(4)	Form of Guarantee with respect to Preferred Securities.
4.18(14)	Southwest Gas Capital I Preferred Securities Guarantee by the Company and Harris Trust and Savings Bank, dated as of October 31, 1995.
4.19(14)	Form of Subordinated Debt Security (included in the First Supplemental Indenture included as Exhibit 4.20 hereto).
4.20(14)	Subordinated Debt Securities Indenture between the Company and Harris Trust and Savings Bank, dated as of October 31, 1995.
4.21(14)	First Supplemental Indenture between the Company and Harris Trust and Savings Bank, dated as of October 31, 1995, supplementing and amending the Indenture dated as of October 31, 1995, with respect to the 9.125% Subordinated Debt Securities.
4.22(2)	Form of Deposit Agreement.
4.23(2)	Form of Depositary Receipt (attached as Exhibit A to Deposit Agreement included as Exhibit 4.22 hereto).
4.24(17)	Rights Agreement between the Company and Harris Trust Company, as Rights Agent, dated as of March 5, 1996.
4.25	The Company hereby agrees to furnish to the SEC, upon request, a copy of any instruments defining the rights of holders of long-term debt issued by Southwest Gas Corporation or its subsidiaries.
9.01	Not applicable.
10.01(5)	Participation Agreement among the Company and General Electric Credit Corporation, Prudential Insurance Company of America, Aetna Life Insurance Company, Merrill Lynch Interfunding, Bank of America through purchase of Valley Bank of Nevada, Bankers Trust Company and First Interstate Bank of Nevada, dated as of July 1, 1982.
10.02(23)	Amended and Restated Lease Agreement between the Company and Spring Mountain Road Associates, dated as of July 1, 1996.
10.03(11)	Financing Agreement between the Company and Clark County, Nevada, dated September 1, 1992.
10.04(11)	Financing Agreement between the Company and Clark County, Nevada, dated as of December 1, 1993.
10.05(11)	Project Agreement between the Company and City of Big Bear Lake, California, dated as of December 1, 1993.
10.06(12)	Southwest Gas Corporation Executive Deferral Plan, amended and restated May 10, 1994.
10.07(19)	Southwest Gas Corporation Directors Deferral Plan, together with first amendment dated March 5, 1996.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
10.08(11)	Southwest Gas Corporation Board of Directors Retirement Plan, amended and restated effective October 1, 1993.
10.09	Southwest Gas Corporation Management Incentive Plan, amended and restated January 1, 1995.
10.10(12)	Southwest Gas Corporation Supplemental Retirement Plan, amended and restated as of May 10, 1994.
10.11(25)	Form of Employment Agreement with Company officers.
10.12(13)	$200 million Credit Agreement between the Company, Union Bank of Switzerland, et al., dated as of January 27, 1995.
10.13(16)	Merger Agreement among the Company and Northern Pipeline Construction Co., dated as of November 13, 1995.
10.14(18)	Southwest Gas Corporation 1996 Stock Incentive Plan.
10.15(27)	$350 million Revolving Credit Agreement among the Company, Union Bank of Switzerland, et al., dated as of June 12, 1997.
11.01	Not applicable.
12.01	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends of the Company.
13.01	Portions of 1997 Annual Report incorporated by reference to the Form 10-K.
16.01	Not applicable.
18.01	Not applicable.
21.01	List of subsidiaries of Southwest Gas Corporation.
22.01	Not applicable.
23.01	Consent of Arthur Andersen LLP, Independent Public Accountants.
24.01	Not applicable.
27.01	Financial Data Schedule (filed electronically only).
28.01	Not applicable.

----

(1) Incorporated herein by reference to the Registration Statement on Form S-3, No. 33-7931.

(2) Incorporated herein by reference to the Registration Statement on Form S-3, No. 33-55621.

(3) Incorporated herein by reference to the Registration Statement on Form S-3, No. 33-62143.

(4) Incorporated herein by reference to the Amendment No. 1 to Registration Statement on Form S-3, No. 33-62143.

(5) Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1982.

(6) Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1986.

(7) Incorporated herein by reference to the report on Form 10-Q for the quarter ended March 31, 1987.

(8) Incorporated herein by reference to the report on Form 8-K dated August 23, 1988.

(9) Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 1992.

(10) Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 1992.

(11) Incorporated herein by reference to the Company's report on Form 10-K for the year ended December 31, 1993.

(12) Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 1994.

(13) Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1994.

(14) Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 1995.

(15) Incorporated herein by reference to the report on Form 8-K dated October 26, 1995.

(16) Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1995.

(17) Incorporated herein by reference to the report on Form 8-K dated March 5, 1996.

(18) Incorporated herein by reference to the Proxy Statement dated May 30, 1996.

(19) Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 1996.

(20) Incorporated herein by reference to the report on Form 8-K dated July 19, 1996.

(21) Incorporated herein by reference to the report on Form 8-K dated July 26, 1996.

(22) Incorporated herein by reference to the report on Form 8-K dated July 31, 1996.

(23) Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 1996.

(24) Incorporated herein by reference to the report on Form 8-K dated December 30, 1996.

(25) Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1996.

(26) Incorporated herein by reference to the report on Form 10-Q for the quarter ended March 31, 1997.

(27) Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

Date: March 25, 1998

By /s/ MICHAEL O. MAFFIE

Michael O. Maffie,
President and Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ GEORGE C. BIEHL (George C. Biehl)	Senior Vice President, Chief Financial Officer and Corporate Secretary	March 25, 1998
/s/ EDWARD A. JANOV (Edward A. Janov)	Vice President, Controller and Chief Accounting Officer	March 25, 1998

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
(Ralph C. Batastini)	Director	
/s/ GEORGE C. BIEHL (George C. Biehl)	Director, Senior Vice President, Chief Financial Officer and Corporate Secretary	March 25, 1998
/s/ MANUEL J. CORTEZ (Manuel J. Cortez)	Director	March 25, 1998
/s/ LLOYD T. DYER (Lloyd T. Dyer)	Director	March 25, 1998
/s/ THOMAS Y. HARTLEY (Thomas Y. Hartley)	Chairman of the Board of Directors	March 25, 1998
/s/ MICHAEL B. JAGER (Michael B. Jager)	Director	March 25, 1998
/s/ LEONARD R. JUDD (Leonard R. Judd)	Director	March 25, 1998
/s/ JAMES J. KROPID (James J. Kropid)	Director	March 25, 1998
/s/ JAMES R. LINCICOME (James R. Lincicome)	Director	March 25, 1998
/s/ MICHAEL O. MAFFIE (Michael O. Maffie)	Director, President and Chief Executive Officer	March 25, 1998
/s/ CAROLYN M. SPARKS (Carolyn M. Sparks)	Director	March 25, 1998
/s/ ROBERT S. SUNDT (Robert S. Sundt)	Director	March 25, 1998
/s/ TERRANCE L. WRIGHT (Terrance L. Wright)	Director	March 25, 1998

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
3(ii)	Amended Bylaws of Southwest Gas Corporation
10.09	Southwest Gas Corporation Management Incentive Plan, amended and restated January 1, 1995
12.01	Computation of Ratios of Earnings to Fixed Charges and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends of the Company
13.01	Portions of 1997 Annual Report incorporated by reference to Form 10-K
21.01	List of Subsidiaries of Southwest Gas Corporation
23.01	Consent of Arthur Andersen LLP, Independent Public Accountants
27.01	Financial Data Schedule (filed electronically only)

EXHIBIT 3(ii)

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.

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.

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 thirteen (13).

SECTION 3. 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 4. 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 5. 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 6. 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.

SECTION 7. 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 8. 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 mailing to each of them a copy of such notice at least five days 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 9. 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 10. 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.

SECTION 11. 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;

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.

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 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 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.

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 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;

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 cancelled 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.

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.

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.

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 21st day of January, 1998.

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

EXHIBIT 10.09

SOUTHWEST GAS CORPORATION

MANAGEMENT INCENTIVE PLAN

Effective May 12, 1993

Amended and Restated May 10, 1994

Amended and Restated January 1, 1995

TABLE OF CONTENTS

SOUTHWEST GAS CORPORATION

1993 MANAGEMENT INCENTIVE PLAN

---

1. PURPOSE OF THE PLAN

This 1993 Management Incentive Plan, revised and restated effective January 1, 1995, is intended to both replace the existing Southwest Gas Corporation Management Incentive Plan and encourage a selected group of highly compensated or management employees of the Company to remain in its employment and to put forth maximum efforts to achieve the Company's short- and long-term performance goals.

2. DEFINITIONS

(a) "Actual Award" means the dollar amount earned by a Participant on the basis of the performance of the Company during the annual Performance Period.

(b) "Annual Base Salary" means the calendar year-end rate of compensation paid to a Key Employee, including salary deferrals, but excluding bonuses, incentives, commissions, overtime, monetary and nonmonetary awards for employment service to the Company or payments or Company contributions to or from this Plan or any other Company retirement or deferred compensation, or similar plans.

(c) "Annual Performance Measures" shall mean the performance criteria used by the Committee in determining the performance of the Company for the purpose of calculating Actual Awards for Participants earned under the Plan during a Performance Period.

(d) "Award Conversion" means the division of Actual Awards earned into two portions:

(i) A portion payable in cash as soon as the Committee deems practicable following the end of an annual Performance Period.

(ii) A portion converted into Performance Shares and subject to a Restriction Period.

(e) "Award Conversion Date" means the day that the Committee performs the Award Conversion on Actual Awards for a Performance Period.

(f) "Board" or "Board of Directors" means the Board of Directors of Southwest Gas Corporation.

(g) "Committee" means the Nominating and Compensation Committee of the Board of Directors, or any such other committee designated by the Board to administer the Plan.

(h) "Common Stock" means the common stock of Southwest Gas Corporation.

(i) "Company" means Southwest Gas Corporation and its present and future subsidiaries (other than PriMerit Bank and its subsidiaries) and any successor thereto.

(j) "Disability" or "Disabled". A Participant shall be considered to be "Disabled" or to have incurred a "Disability" if he or she qualifies for a disability benefit under Southwest Gas Corporation's group long-term disability plan. In the event a Participant does not qualify for benefits under such disability plan, the Committee, in its sole and absolute discretion, may determine that a Participant is Disabled for purposes of this Plan.

(k) "Dividend Credits" means the additional Performance Shares determined as set forth in Plan Section 7(d) calculated for each Restriction Period for the Participant's Performance Shares subject to such period.

(l) "Employee" means any person who is a regular full-time employee of the Company, including those who are officers or Board members.

(m) "Fiscal Year" means the Fiscal Year of the Company beginning each January 1st and ending the following December 31st.

(n) "Incentive Award Opportunity" means the range of an Actual Award available to each Participant in this Plan for a given Performance Period.

(o) "Involuntary Termination Without Cause" means a Participant's termination of employment (i) due to reorganization, downsizing, restructuring or layoff and (ii) not due to what the Committee determines was, in its sole and absolute discretion, either the Participant's inability to adequately perform his or her job, a violation of Company work rules or policies, or misconduct that the Committee determines is detrimental to the Company's best interests.

(p) "Key Employee" means a management or highly compensated Employee of the Company who the Committee determines to (i) have a direct and significant impact on the performance of the Company, and (ii) has a position or compensation that allows him or her to affect or influence, through negotiation or otherwise, the design or operation of this Plan so as to eliminate the Employee's need for the substantive rights and protections of Title I of the Employee Retirement Income Security Act of 1974.

(q) "Long-Term Performance Measures" means the performance measures developed and utilized by the Committee in determining the performance of the Company for the purpose of calculating the number of shares of Common Stock payable to the Participant following the end of a Restriction Period.

(r) "Participant" means a Key Employee who in the Committee's sole and absolute discretion is determined to be eligible to receive an Incentive Award Opportunity under this Plan.

(s) "Peer Group" means the companies comprising the group against which the Committee assesses the performance of the Company for the purposes of determining Actual Awards earned, or for modifying the number of shares of Common Stock that are payable to Participants following the end of a Restriction Period.

(t) "Performance Period" means a period of twelve months corresponding to the Company's Fiscal Year and for which the Company's performance is assessed by the Committee for the purpose of its determining Actual Awards earned.

(u) "Performance Share" means a hypothetical share of Common Stock that will be converted into, and paid out, as a share of Common Stock only if all restrictions and conditions set forth in this Plan have been satisfied. The Performance Share carries no voting rights but does entitle the Participant to receive Dividend Credits determinable under Plan Section 7(d).

(v) "Plan" means the Southwest Gas Corporation 1993 Management Incentive Plan as set forth herein and as amended from time to time.

(w) "Restriction Period" means, with respect to each grant of Performance Shares to a Participant, a period of at least thirty six (36) consecutive calendar months beginning with the last day of February prior to the Award Conversion Date applicable to such shares.

(x) "Retire" or "Retirement" means the termination of a Participant's employment with the Company on or after the Participant has attained his or her early retirement date, normal retirement date, or deferred retirement date as defined in the Retirement Plan for Employees of Southwest Gas Corporation, as amended and in effect from time to time.

(y) "Target Award" means the Incentive Award Opportunity available to each Participant if all Performance Measures for a Performance Period are fully met but not exceeded.

3. ADMINISTRATION

(a) The Plan shall be administered by non-Employee members of the Committee, which shall be composed of not less than three members of the Board of Directors. The non-Employee members of the Committee chosen to administer the Plan shall not have received an award under this Plan or any plan preceding this Plan within the last calendar year. The Board of Directors may designate alternate members of the Committee from non-Employee Board members who satisfy the above-criteria to act in the place and stead of any absent member of the Committee.

(b) The Committee shall have full and final authority to operate, manage, and administer the Plan on behalf of the Company. This authority includes but is not limited to the following:

(i) Determination of eligibility for participation in the Plan;

(ii) Determination of Actual Awards earned and the Award Conversion of the Actual Awards;

(iii) Payment of Actual Awards that have become nonforfeitable;

(iv) Directing the Company to make the accruals and payments provided for by the Plan;

(v) Interpretation of the Plan and the resolution of any inconsistent or conflicting Plan language as well as factual or nonfactual questions regarding a Participant's eligibility for, and the amount of, benefits payable under the Plan;

(vi) Power to prescribe, amend, or rescind rules and regulations relating to the Plan;

(vii) Power to determine the vesting schedules, if any, for all awards; and

(viii) Powers prescribed to the Committee elsewhere in the Plan.

(c) With respect to Incentive Award Opportunities and Actual Awards earned, the Committee shall have full and final authority in its sole and absolute discretion to determine the Incentive Award Opportunities for individual Participants; determine the time or times at which Actual Awards may be calculated; determine the length of all applicable Performance Periods and/or Restriction Periods; determine the award schedule and the Annual and Long-Term Performance Measures (and the Company's satisfaction or failure to satisfy such measures) that will be used in calculating Actual Awards and in determining the number of shares of Common Stock payable to Participants at the end of the Restriction Period; and determine the composition of the Peer Group to be used in assessing the Company's performance.

(d) A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all the members in the absence of a meeting, shall be the acts of the Committee. All Committee interpretations, determinations, and actions will be final, conclusive, and binding on all parties.

(e) No member of the Board or the Committee will be liable for any action taken or determination made in good faith by the Board or the Committee with respect to the Plan or any Actual Award calculated and paid hereunder.

4. ELIGIBILITY

(a) In determining the Key Employees that will be Participants and the Incentive Award Opportunity for each Participant, the Committee shall take into account the duties of the respective Participant, their present and potential contributions to the success of the Company, and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.

(b) No Incentive Award Opportunity will be available to any person who, at the beginning of the applicable Performance Period, is a member of the Committee responsible for the administration of the Plan.

5. INCENTIVE AWARD OPPORTUNITIES

(a) The Committee will establish the Incentive Award Opportunity for each Participant or class of Participants designated by the Committee. The Incentive Award Opportunity will be expressed as percentages of the Participant's Annual Base Salary.

(b) An Incentive Award Opportunity will range from zero to some specific maximum percentage of the Participant's Annual Base Salary (or maximum dollar amount).

(c) Before or during each Performance Period a Participant will be assigned a specific Target Award that will fall within the range of the Participant's Incentive Award Opportunity. The Target Award will be awarded to the Participant if, in the judgement of the Committee, all applicable Annual Performance Measures have been fully met.

(d) Actual Awards for each Participant in the Plan shall be determined by the Committee following the end of the applicable Performance Period, taking into account how the Company performed on the basis of the Annual Performance Measures developed and utilized by the Committee for the Performance Period. Notwithstanding the foregoing, if Southwest Gas Corporation's Chief Executive Officer (hereinafter the "CEO") or Chief Financial Officer (hereinafter the "CFO") are Participants, the Committee may consider the performance of PriMerit Bank during a Performance Period when examining the Annual Performance Measures and determining the Actual Award for the CEO and/or CFO for the period.

6. PROCEDURES FOR CALCULATING AND PAYING ACTUAL AWARDS

(a) The Committee shall establish the Annual Performance Measures that will be utilized for one or more Performance Periods in assessing the performance of the Company for the purpose of determining the Actual Awards earned under this Plan. These measures and the standards of performance associated with them may change from year to year and may receive different emphasis or weight according to the changing priorities of the Company. It is expected that the Annual Performance Measures generally will be tied to the financial performance of the Company and will be based on a combination of (i) the Company's performance in relation to its own performance standards and (ii) the Company's performance in relation to that of its Peer Group. In addition to the Annual Performance Measures, each Participant will be expected to meet individual performance goals.

(b) Following the end of each Performance Period, the Committee will compare the Company's actual performance during such period with the Annual Performance Measures it established for the period, and the Actual Award, if any, for a Participant will be calculated. For each Performance Period the Committee will utilize an award schedule for calculating the Actual Awards earned on the basis of the Company's performance. The award schedule may be modified by the Committee from year to year as Annual Performance Measures or the standards of performance associated with such measures change.

(c) Following the calculation of Actual Awards, the Chief Executive Officer will make an overall assessment of each Participant's attainment of individual performance goals and may reduce a Participant's Actual Award based upon such assessment. Further, the Chief Executive Officer may recommend to the Committee that no Actual Award be given to a Participant based on his assessment of individual performance. The assessment of the individual performance of the Chief Executive Officer will be made by the Board of Directors.

(d) Following the calculation of the Actual Awards, adjusted as provided for in Plan Section 6 (c), an Award Conversion will be made whereby the Actual Awards for each Participant will be split into two components. The first component will be a dollar amount that is payable to the Participant in cash as soon as the Committee deems practical following the Award Conversion Date. The second component will be a dollar amount that is converted into whole or partial Performance Shares, which shall be restricted for a period of at least thirty six consecutive calendar months beginning on the Award Conversion Date applicable to such shares. The number of Performance Shares allocable to each Participant shall be determined by dividing (i) the dollar amount available for the Participant's Performance Shares (determined by the Award Conversion), by (ii) the closing per share value of the Common Stock on the New York Stock Exchange on the last trading day on the Exchange before the Award Conversion Date. Payment of Performance Shares shall occur at the time provided in Plan Section 7(c).

(e) The Committee shall have the sole and absolute responsibility for determining Actual Awards of Participants. Generally, the Actual Awards generated by application of the award schedule established by the Committee for one or more Performance Periods will be the Actual Awards that will be payable to each Participant; provided, however, that the Committee may, prior to the Award Conversion Date, alter the Actual Awards generated by the awards schedule if, in the opinion of the Committee, there have been exceptional circumstances that have either created inappropriate windfalls or shortfalls in the Company's performance (or the performance of PriMerit Bank in the case of the CFO and CEO), which, in turn, have resulted in inappropriately large or small Actual Awards.

(f) If, during a Performance Period, the Committee determines that the established Annual Performance Measures are no longer suitable due to a change in the Company's business, operations, corporate structure, capital structure, or other conditions the Committee deems to be material, the Committee may modify the Annual Performance Measures as it considers appropriate and equitable.

7. PERFORMANCE SHARES

(a) On the Award Conversion Date, Participants who earned an Actual Award during the preceding Performance Period will have an entry made on the Company's books reflecting the Performance Shares allocable to them as determined pursuant to Plan Section 6(c).

(b) A Participant's Performance Shares earned in a given Performance Period will be subject to a Restriction Period of at least thirty six consecutive calendar months beginning on the Award Conversion Date applicable to such shares.

During the Restriction Period, the Participant may not, except as provided in Plan Section 8(d), receive payment for his or her Performance Shares.

(c) For the Restriction Period applicable to each Performance Period, the Committee shall establish certain Long-Term Performance Measures that will be used to determine the number of Performance Shares that shall be paid to the Participant on the date(s) determined by the Committee which shall be within a reasonable period following the end of the Restriction Period. Notwithstanding anything in this Plan to the contrary, if the Committee determines that the Company has satisfied or failed to satisfy the Long-Term Performance Measures, it may, as provided in Plan Section 7(e), increase or decrease the number of Performance Shares credited to the Participant at the beginning, and over the course of the Restriction Period. The Long-Term Performance Measures will be tied to the performance of the Company (in the case of the CEO and CFO, the Committee may also consider the performance of PriMerit Bank) as measured against certain financial criteria and may be specified in absolute terms or specified relative to the performance of a Peer Group (in the case of the CEO and CFO the Committee may also consider the performance of PriMerit Bank).

(d) During the Restriction Period, a Participant will receive cash dividends on the Performance Shares then credited to the Participant on the Company's records, equal to the quarterly dividend paid per share of Common Stock. Such payments will occur at the same time quarterly dividends are paid on Common Stock. The Committee may, in lieu of cash dividends, provide to a Participant Dividend Credits equal to the cash dividends paid per share of Common Stock, multiplied by the number of Performance Shares then credited to the Participant on the Company's records, and divided by the closing per share value of the Common Stock on the New York Stock Exchange on the date such dividends are paid or the last trading day on the Exchange before such payment. If the Committee determines to pay such dividends through Dividend Credits, these additional Performance Shares will be subject to the same restrictions as the Performance Shares that generated the Dividend Credits, and such restrictions will lapse at the same time as the restrictions lapse on such Performance Shares.

(e) Following the end of a Restriction Period, the Participant shall receive a specific number of shares of Common Stock equal to the total number of Performance Shares allocated to the Participant at the beginning of such Restriction Period plus the Performance Shares credited quarterly through Dividend Credits during the Restriction Period. The total number of shares of Common Stock the Participant is entitled to receive may be modified by up to plus or minus 20% on the basis of how the Company performs (as to the CEO and CFO, the Committee may also consider the performance of PriMerit Bank) during the length of the Restriction Period against the Long-Term Performance Measures established by the Committee for the Restriction Period. Payment of Common Stock pursuant to this paragraph shall occur on the date(s) determined by the Committee which shall be within a reasonable period following the end of the Restriction Period applicable to such Performance Shares.

(f) Notwithstanding anything else in this Plan to the contrary, if the Plan is not approved by Southwest Gas Corporation shareholders pursuant to Plan Section 12, the Performance Shares shall not entitle the Participant to receive shares of Common Stock of the Company following the end of the Restriction Period but shall instead entitle the Participant to receive a cash payment following the end of the Restriction Period. The cash payment shall equal the fair market value of the shares of Common Stock the Participant would have received hereunder. For this purpose, the fair market value of the Common Stock shall be determined using closing per share value of the stock on the New York Stock Exchange on the last trading day on the Exchange of the applicable Restriction Period.

8. PARTICIPANT TERMINATIONS AND TRANSFERS

(a) Should a Participant's continuous employment with the Company terminate for any reason other than death, Disability, Retirement, or Involuntary Termination Without Cause during a Performance Period, the Participant's right to receive an Actual Award for such period will be forfeited by the Participant.

(b) Should a Participant's continuous employment with the Company terminate for any reason other than death, Disability, Retirement, or Involuntary Termination Without Cause during a Restriction Period, the Participant's right to receive payments of his or her outstanding Performance Shares will be forfeited by the Participant.

(c) Should a Participant die, become Disabled, Retire, or have his or her employment Involuntarily Terminated Without Cause during the Performance Period, the Participant (or the Participant's beneficiary in the case of a deceased Participant) will be entitled to receive an Actual Award at the end of the Performance Period determined on a pro rata basis according to the number of months of the Performance Period actually worked while being a Participant in the Plan.

(d) Should a Participant die, become Disabled, Retire, or have his or her employment Involuntarily Terminated Without Cause during a Restriction Period, the Participant (or the Participant's beneficiary in the case of a deceased Participant) will receive a distribution of Common Stock equal to the total number of Performance Shares then credited to the Participant. If Plan Section 7(f) applies, cash and not Common Stock shall be paid and the amount of such payment shall be determined by multiplying the Participant's

Performance Shares by the closing per share value of the Common Stock on the New York Stock Exchange on the date of such event or the last trading day on the Exchange before such event. Payment of Common Stock (or cash if Plan Section 7(f) applies) shall occur within a reasonable period (as determined by the Committee) following the date of the Participant's death, Disability, Retirement, Disability, or Involuntary Termination Without Cause.

A Participant shall have the right to designate any person as his or her Beneficiary to whom benefits determined under Plan Section 8(c) and the preceding paragraph ("Death Benefits") shall be paid in the event of the Participant's death prior to the total distribution of his/her Death Benefits. If greater than 50 percent of the Death Benefits is designated to a beneficiary other than the Participant's lawful spouse, such beneficiary designation must be consented to by the Participant's lawful spouse. Each beneficiary designation must be in written form prescribed by the Committee and will be effective only when filed with the Committee, or its designee, during the Participant's lifetime.

A Participant may change a beneficiary designation, subject to spousal consent under the preceding paragraph, by filing a new beneficiary designation with the Committee or its designee. The filing of a new beneficiary designation form will cancel all beneficiary designations previously filed. The Committee shall be entitled to rely on the beneficiary designation last filed by the Participant prior to his/her death. Any payment made in accordance with such designation shall fully discharge the Company from all further obligations with respect to the amount of such payments.

If a beneficiary entitled to receive benefits under the Plan is a minor or a person declared incompetent, the Committee may direct payment of such benefits to the guardian or legal representative of such minor or incompetent person. The Committee may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of any Death Benefits. Such distribution shall completely discharge the Committee and the Company from all liability with respect to such payments.

If no beneficiary designation is in effect at the time of the Participant's death, or if the named beneficiary predeceased the Participant, then the beneficiary shall be: (1) the surviving lawful spouse; (2) if there is no surviving lawful spouse, then Participant's issue per stirpes; or (3) if no surviving lawful spouse or issue, then Participant's estate.

(e) If a Participant changes jobs with the Company during the course of a Performance Period and his or her new job has a different Incentive Award Opportunity under the Plan, the Participant's Incentive Award Opportunity for the Performance Period shall be the sum of the products obtained by multiplying (i) the percentage of the full Performance Period spent in each job by (ii) the Incentive Award Opportunity for each such job. In special circumstances, which the Committee may identify from time to time, the Participant may be assigned for the full Performance Period the Incentive Award Opportunity that corresponds to any one of the jobs held by the Participant during the Performance Period rather than combining partial Incentive Award Opportunities for the jobs.

(f) Should a Key Employee become eligible to participate in the Plan after the beginning of a Performance Period, the Participant will be entitled to an Incentive Award Opportunity on the basis of the number of months of the full Performance Period the Key Employee is a Participant in the Plan.

9. CHANGES IN CAPITAL STRUCTURE AND OTHER EVENTS

(a) Notwithstanding anything in the Plan to the contrary, upon dissolution or liquidation of the Company (or upon a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation,) or upon the sale of all or substantially all of the assets of the Company, Performance Shares then outstanding under the Plan will, within a reasonable time period following such change, be determined by the Committee and settled and paid on the basis of the amount, and other terms, as determined by the Committee, unless provisions are made for the continuance of the Plan and the assumption or the substitution of such Performance Shares with new awards by such successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of units, prices, and Performance Share values.

(b) All determinations, decisions, and adjustments made by the Committee pursuant to Plan Section 9(a) will be final, binding, and conclusive. No fractional interest will be issued under the Plan on account of such adjustments.

(c) In the event (i) a report on Schedule 13D is filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (referred to as the "Act") disclosing that any "person" (as defined in Section 13(d) of the Act) other than the Company or one of its subsidiaries or an employee benefit plan sponsored by the Corporation or one of its subsidiaries is the beneficial owner, directly or indirectly, or twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company; (ii) any "person" (as defined in Section 13(d) of the Act) other than the Company or one of its subsidiaries, or an employee benefit plan sponsored by the Company or one of its subsidiaries shall purchase securities pursuant to a tender offer or exchange offer to acquire any Common Stock of the Company (or securities convertible in Common Stock) for cash, securities, or any other consideration, provided that after the consummation of the offer, the person in question is the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly or twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company (as determined under paragraph (d) of Rule 13d-3 under the Act, in the case of rights to acquire Common Stock); (iii) the stockholders of the Company shall approve (a) any consolidation or merger of the Company (1) in which the Company is not the continuing or surviving corporation, (2) pursuant to which shares of Common Stock of the Company would be converted into cash securities, or other property, or (3) with a corporation that prior to such consolidation or merger owned twenty percent (20%) or more of the cumulative voting power of the then outstanding securities of the corporation, or (b) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or (iv) there shall have been a change in the majority of the Board of the Company within a twelve-month period, unless the election or nomination for election by the Company's stockholders of each director during such twelve-month period was approved by the vote of two-thirds (2/3) of the directors then in office who were directors at the beginning of such twelve-month period, the Committee may in its sole and absolute discretion, without obtaining stockholder approval, at the time of any one or more of the foregoing actions, to the extent permitted in Plan Section 7, with respect to all Participants:

(i) Accelerate the settlement dates of some or all outstanding Performance Shares;

(ii) Make any other adjustments or amendments to the Plan and outstanding Incentive Award Opportunities and Performance Shares; or

(iii) Substitute new Incentive Award Opportunities.

10. PROVISIONS REGARDING WITHHOLDING TAXES

(a) The Committee may require a Participant receiving Common Stock upon conversion of Performance Shares awarded hereunder to reimburse the Company for any taxes required by any government to be withheld or otherwise deducted and paid by the Company in respect of the issuance to or disposition of shares by the Participant (a "Taxable Event"). Any payment on account of a tax obligation shall be in a form acceptable to the Committee. If upon the occurrence of a Taxable Event the Participant does not, in the time required by law or designated by the Committee, reimburse the Company for taxes as provided for above: (i) the Company shall have the right to withhold some or all of the amount of such taxes from any other sums due or to become due from the Company to the Participant upon such terms and conditions as the Committee shall prescribe, and (ii) the Company may satisfy some or all of the tax obligation of such Participant by withholding shares of Common Stock acquired by the Participant in the conversion of any Performance Shares and may in the same manner satisfy some or all of any additional tax obligation resulting from such withholding.

(b) At any time that the Company becomes subject to a withholding obligation under applicable law with respect to the conversion of Performance Shares, except as set forth below with respect to persons subject to Section's 16(a) and (b) of the Exchange Act, a Participant may elect to satisfy, in whole or in part, the Participant's related estimated personal tax liabilities by directing the Company to withhold from the shares of Common Stock issuable in the related conversion of Performance Shares either (i) a specified percentage of shares, (ii) a specified number of shares or (iii) shares having a specified value, in each case with a value not in excess of such estimated tax liabilities. Such an election shall be irrevocable. The shares of Common Stock withheld in payment shall be valued at their fair market value on the date that the withholding obligation arises (the "Tax Date"). The Committee may disapprove of any election, suspend or terminate the right to make elections or provide that the right to make elections shall not apply to particular conversions. If a Participant is a person subject to Sections 16(a) and (b) of the Exchange Act then (A) any election by such Participant must be made either (i) at least six months prior to the relevant Tax Date or (ii) on or prior to the relevant Tax Date and during a period that begins on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of sales and earnings and that ends on the twelfth business day following such date and (B) the election may not be made with respect to shares of Common Stock representing a conversion of a Performance Shares grant, or the withholding obligation arising thereon, if the relevant Performance Shares were granted six months or less prior to the date of election. The Committee may impose any other conditions or restrictions on the right to make an election as it shall deem appropriate.

11. PROVISIONS APPLICABLE TO COMMON STOCK

(a) Shares of Common Stock to be delivered to Participants at the end of the Restriction Period may be previously authorized but unissued shares or may be previously issued and reacquired shares.

(b) If at any time the Board shall determine in its discretion that the listing, registration or qualification upon any national securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the sale, purchase, issuance or delivery of Common Stock under the

Plan, no Common Stock shall be sold, purchased, issued or delivered, as the case may be, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained, or otherwise provided for, free of any conditions not acceptable to the Board.

(c) Except as hereafter provided and if so required by the Committee, the recipient of any Performance Share award shall, upon receipt of any shares of Common Stock due to the Award Conversion of Performance Shares represented by the award, execute and deliver to the Company a written statement, in form satisfactory to the Company, in which such Participant represents and warrants that such Participant is acquiring the shares for such Participant's own account, for investment only and not with a view to the resale or distribution thereof, and agrees that any subsequent offer for sale or sale or distribution of any such shares of Common Stock shall be made only pursuant to either (a) a Registration Statement on an appropriate form under the Securities Act of 1933, as amended (the "Securities Act"), which Registration Statement has become effective and is current with regard to the shares of Common Stock being offered or sold, or (b) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption the holder or recipient shall, if required by the Company, prior to any offer for sale or sale of such shares, obtain a favorable written opinion, in form and substance satisfactory to the Company, from counsel for or approved by the Company, as to the applicability of such exemption thereto. The foregoing restriction shall not apply to (i) issuances by the Company so long as the shares being acquired are registered under the Securities Act and a prospectus in respect thereof is current or (ii) reofferings of shares by affiliates of the Company (as defined in Rule 405 or any successor rule or regulation promulgated under the Securities Act) if the shares being reoffered are registered under the Securities Act and a prospectus in respect thereof is current.

(d) The Company may endorse such legend or legends upon the certificates for shares of Common Stock issued upon conversion of Performance Shares made hereunder and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as, in its discretion, it determines to be necessary or appropriate to (i) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act, or (ii) implement the provisions of the Plan and any agreement between the Company and the Participant.

(e) The Company shall pay all issue taxes with respect to the issuance of shares of Common Stock upon conversion of Performance Shares, as well as all fees and expenses necessarily incurred by the Company in connection with such issuance.

12. EFFECTIVE DATE; STOCKHOLDER APPROVAL

The Plan shall become effective upon adoption by the Board, provided, however, that unless and until the Plan is approved by a vote of the shareholders of Southwest Gas Corporation at the 1994 annual shareholders' meeting, all Performance Shares awarded hereunder shall, when otherwise payable under the Plan, be, as provided in Plan Section 7(f), converted into cash and not Common Stock.

13. AMENDMENT AND TERMINATION OF THE PLAN

The Board at any time and from time to time may, without prior notice to Participants, suspend, terminate, modify, or amend the Plan. Except as otherwise provided for in Plan Sections 5, 6, 7, 8 and 9, no suspension, termination, modification, or amendment of the plan may adversely affect any award previously granted, unless the written consent of the Participant is obtained. Notwithstanding the authority granted to the Board herein, if the shareholder's of Southwest Gas Corporation have approved this Plan as contemplated in Plan Section 12 above, no amendment to the Performance Share provisions of this Plan shall become effective without shareholder approval if, as to executive officer Participants, such amendment would:

(i) materially increase the benefits accruing to such Participants under the Plan;

(ii) materially increase the number of Performance Shares which may be issued to such Participants under the Plan; or

(iii) materially modify the requirements as to eligibility for executive participation in the Plan.

14. BENEFIT CLAIMS PROCEDURE

(a) Any claim for money or stock awards under the Plan shall be made in writing to the Committee. If such claim is wholly or partially denied, the Committee shall, within ninety (90) days after receipt of the claim, notify the Participant or Beneficiary of the denial of the claim. Such notice of denial shall (i) be in writing, (ii) be written in a manner calculated to be understood by the Participant or Beneficiary, and (iii) contain the specific reason or reasons for denial of the claim, a specific reference to the pertinent Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the claim, along with an explanation of why such material or information is necessary, and an explanation of the claim review procedure. The ninety (90) day period may, under special circumstances, be extended up to an additional ninety (90) days upon written of such extension to the Participant or Beneficiary which notice shall specify the special circumstances and the extended date of the decision. Notice of extension must be given prior to expiration of the initial ninety (90) day period. If not notice of decision is given within the periods specified above, the claim shall, on the last day of the notice period, be deemed to have been denied and the Participant or Beneficiary may file a request for review as provided in the next paragraph.

(b) Within sixty (60) days after the receipt of the decision denying a claim (or the occurrence of the date that a claim is deemed denied) by the Participant or Beneficiary, the Participant or Beneficiary may file a written request with the Committee that it conduct a full and fair review of the denial of the claim. The Participant or Beneficiary or his or her duly authorized representative may review pertinent documents and submit issues and comments in writing to the Committee in connection with the review.

(c) The Committee shall deliver to the Participant or Beneficiary a written decision on the review of the denial within sixty (60) days after receipt of the aforesaid request for review, except that if there are special circumstances (such as the need to hold a hearing, if necessary) which require an extension of time for processing, the aforesaid sixty (60) day period shall, upon written notice to the Participant or Beneficiary be extended an additional sixty (60) days. Such decision shall (i) be in writing, (ii) be written in a manner calculated to be understood by the Participant or Beneficiary, (iii) include the specific reason or reasons for the decision, and (iv) contain a specific reference to the pertinent Plan provisions upon which the decision is based. If the decision on review is not delivered to the Participant or Beneficiary within the periods specified, the claim shall be considered denied on the last day of the review period.

(d) Upon a Participant or Beneficiary filing a claim, the Committee shall notify the party filing of the claim and review procedure including the time periods involved.

15. GENERAL PROVISIONS

(a) Nothing in this Plan or in any award granted pursuant hereto shall confer on an individual any right to continue in the employ of the company or any of its subsidiaries or interfere in any way with the right of the Company or any such subsidiary to terminate any employment.

(b) Upon its adoption by the Board, this Plan shall replace the existing Southwest Gas Corporation Management Incentive Plan with respect to periods commencing January 1, 1993.

(c) Awards granted under the Plan shall not be transferable otherwise than as provided for in Plan Section 8(d), by will or by the laws of descent and distribution, and awards may be realized during the lifetime of the Participant only by the Participant or by his guardian or legal representative.

(d) The section and subsection heading are contained herein for convenience only and shall not affect the construction hereof.

(e) A Participant's rights to Performance Shares and other Plan benefits represent rights to merely an unfunded and unsecured promise of a future payment of money or property. A Participant shall look only to the Company for the payment of Performance Shares and other Plan benefits and such shares and benefits shall, until paid, be subject to the claims of Company creditors. A Participant's rights under the Plan shall be only that of an unsecured general creditor of the Company.

IN WITNESS WHEREOF, Southwest Gas Corporation has caused this Plan to be executed this 15th day of January, 1995.

SOUTHWEST GAS CORPORATION

By Michael O. Maffie

Signature

Its President/Chief Executive Officer

EXHIBIT 12.01

SOUTHWEST GAS CORPORATION

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	FOR THE YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
CONTINUING OPERATIONS					
1. Fixed charges:					
A) Interest expense	$63,247	$54,674	$52,844	$48,688	$40,883
B) Amortization	1,164	1,494	1,569	1,426	1,330
C) Interest portion of rentals	6,973	6,629	4,435	4,743	4,556
D) Preferred securities distributions	5,475	5,475	913	--	--
Total fixed charges	$76,859	$68,272	$59,761	$54,857	$46,769
2. Earnings (as defined):					
E) Pretax income from continuing operations	$21,328	$10,448	$ 3,493	$38,119	$21,959
Fixed Charges (1. above)	76,859	68,272	59,761	54,857	46,769
Total earnings as defined	$98,187	$78,720	$63,254	$92,976	$68,728
3. Ratio of earnings to fixed charges	1.28	1.15	1.06	1.69	1.47

	FOR THE YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
ADJUSTED FOR INTEREST ALLOCATED TO DISCONTINUED OPERATIONS					
1. Fixed charges:					
A) Interest expense	$63,247	$54,674	$ 52,844	$ 48,688	$40,883
B) Amortization	1,164	1,494	1,569	1,426	1,330
C) Interest portion of rentals	6,973	6,629	4,435	4,743	4,556
D) Preferred securities distributions	5,475	5,475	913	--	--
E) Allocated interest(1)	--	--	9,636	7,874	7,874
Total fixed charges	$76,859	$68,272	$ 69,397	$ 62,731	$54,643
2. Earnings (as defined):					
F) Pretax income from continuing operations	$21,328	$10,448	$ 3,493	$ 38,119	$21,959
Fixed Charges (1. above)	76,859	68,272	69,397	62,731	54,643
Total earnings as defined	$98,187	$78,720	$ 72,890	$100,850	$76,602
3. Ratio of earnings to fixed charges	1.28	1.15	1.05	1.61	1.40

- ---------------

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

EXHIBIT 12.01

SOUTHWEST GAS CORPORATION

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
AND PREFERRED DIVIDENDS
(THOUSANDS OF DOLLARS)

	FOR THE YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
CONTINUING OPERATIONS					
1. Combined fixed charges:					
A) Total fixed charges	$76,859	$68,272	$59,761	$54,857	$46,769
B) Preferred dividends(1)	--	--	404	826	1,183
Total fixed charges and preferred dividends	$76,859	$68,272	$60,165	$55,683	$47,952
2. Earnings	$98,187	$78,720	$63,254	$92,976	$68,728
3. Ratio of earnings to fixed charges and preferred dividends	1.28	1.15	1.05	1.67	1.43

	FOR THE YEAR ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
ADJUSTED FOR INTEREST ALLOCATED TO DISCONTINUED OPERATIONS					
1. Combined fixed charges:					
A) Total fixed charges	$76,859	$68,272	$ 69,397	$ 62,731	$54,643
B) Preferred dividends(1)	--	--	404	826	1,183
Total fixed charges and preferred dividends	$76,859	$68,272	$ 69,801	$ 63,557	$55,826
2. Earnings	$98,187	$78,720	$ 72,890	$100,850	$76,602
3. Ratio of earnings to fixed charges and preferred dividends	1.28	1.15	1.04	1.59	1.37

----

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

CONSOLIDATED SELECTED FINANCIAL STATISTICS

YEAR ENDED DECEMBER 31,	1997	1996	1995	1994	1993
(Thousands of dollars, except per share amounts)					
Operating revenues	$ 732,010	$ 644,061	$ 563,502	$ 599,553	$ 539,105
Operating expenses	629,749	572,488	505,090	510,863	461,423
Operating income	$ 102,261	$ 71,573	$ 58,412	$ 88,690	$ 77,682
Income from continuing operations	$ 16,469	$ 6,574	$ 2,654	$ 23,524	$ 13,751
Income (loss) from discontinued operations, net of tax (1)	--	--	(17,536)	2,777	1,655
Net income (loss)	$ 16,469	$ 6,574	$ (14,882)	$ 26,301	$ 15,406
Net income (loss) applicable to common stock	$ 16,469	$ 6,574	$ (15,189)	$ 25,791	$ 14,665
Total assets at year end	$1,769,059	$1,560,269	$1,532,527	$1,453,582	$1,362,861
Capitalization at year end					
Common equity	$ 385,979	$ 379,616	$ 356,050	$ 348,556	$ 335,117
Preferred and preference stocks	--	--	--	4,000	8,058
Trust originated preferred securities	60,000	60,000	60,000	--	--
Long-term debt	778,693	665,221	607,945	678,263	568,600
	$1,224,672	$1,104,837	$1,023,995	$1,030,819	$ 911,775
Common stock data					
Return on average common equity	4.3%	1.8%	(4.1)%	7.6%	4.4%
Earnings (loss) per share					
Continuing operations	$ 0.61	$ 0.25	$ 0.10	$ 1.09	$ 0.63
Discontinued operations	--	--	(0.76)	0.13	0.08
Earnings (loss) per share	$ 0.61	$ 0.25	$ (0.66)	$ 1.22	$ 0.71
Dividends paid per share	$ 0.82	$ 0.82	$ 0.82	$ 0.80	$ 0.74
Payout ratio	N/A	N/A	N/A	66%	104%
Book value per share at year end	$ 14.09	$ 14.20	$ 14.55	$ 16.38	$ 15.96
Market value per share at year end	$ 18.69	$ 19.25	$ 17.63	$ 14.13	$ 16.00
Market value per share to book value per share	133%	136%	121%	86%	100%
Common shares outstanding at year end (000)	27,387	26,733	24,467	21,282	20,997
Number of common shareholders at year end	25,833	26,371	25,133	20,765	21,851
Ratio of earnings to fixed charges					
Continuing operations	1.28	1.15	1.06	1.69	1.47
Adjusted for interest allocated to discontinued operations	1.28	1.15	1.05	1.61	1.40

(1) Contribution from the financial services segment, including the 1995 loss on sale of the Bank.

NATURAL GAS OPERATIONS

YEAR ENDED DECEMBER 31,	1997	1996	1995	1994	1993
(Thousands of dollars)					
Sales	$ 569,542	$ 506,200	$ 524,914	$ 560,207	$ 503,789
Transportation	45,123	40,161	38,588	39,061	34,361
Other	--	--	--	285	955
Operating revenue	614,665	546,361	563,502	599,553	539,105
Net cost of gas sold	209,338	187,580	227,456	249,922	212,290
Operating margin	405,327	358,781	336,046	349,631	326,815
Expenses					
Operations and maintenance	201,159	198,364	187,969	178,310	169,921
Depreciation and amortization	74,528	67,443	62,492	57,284	55,088
Other	29,393	28,156	27,173	25,347	24,124
Operating income	$ 100,247	$ 64,818	$ 58,412	$ 88,690	$ 77,682
Contribution to consolidated net income (loss)	$ 15,825	$ 3,919	$ 2,654	$ 23,524	$ 13,751
Total assets at year end	$1,717,025	$1,498,099	$1,357,034	$1,277,727	$1,194,679
Net gas plant at year end	$1,360,294	$1,278,457	$1,137,750	$1,035,916	$ 954,488
Construction expenditures and property additions	$ 164,528	$ 210,743	$ 166,183	$ 141,390	$ 113,903
Cash flow, net					
From operating activities	$ 45,923	$ 47,931	$ 97,754	$ 84,074	$ 50,437
From investing activities	(170,455)	(41,804)	(163,718)	(141,547)	(116,246)
From financing activities	132,349	(11,456)	71,056	61,422	67,488
Net change in cash	$ 7,817	$ (5,329)	$ 5,092	$ 3,949	$ 1,679
Total throughput (thousands of therms)					
Sales	914,732	818,329	805,884	881,868	850,557
Transportation	1,030,857	968,208	1,016,011	914,791	725,023
Total throughput	1,945,589	1,786,537	1,821,895	1,796,659	1,575,580
Weighted average cost of gas purchased ($/therm)	$ 0.35	$ 0.27	$ 0.21	$ 0.30	$ 0.29
Customers at year end	1,151,000	1,092,000	1,029,000	980,000	932,000
Employees at year end	2,447	2,420	2,383	2,359	2,318
Degree days -- actual	1,976	1,896	1,781	2,091	2,097
Degree days -- ten-year average	2,022	2,033	2,021	2,068	2,064

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Southwest Gas Corporation and subsidiaries (the Company) includes information related to its regulated natural gas transmission and distribution activities and nonregulated activities. In 1996, the Company completed the sale of PriMerit Bank, Federal Savings Bank (the Bank), which is reported as discontinued operations. The loss on disposition was included in the 1995 results of operations.

CONTINUING OPERATIONS

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

As of December 31, 1997, Southwest had 1,151,000 residential, commercial, industrial, and other customers, of which 661,000 customers were located in Arizona, 375,000 in Nevada, and 115,000 in California. Residential and commercial customers represented over 99 percent of the total customer base. During 1997, Southwest added 59,000 customers, a five percent increase, of which 28,000 customers were added in Arizona, 29,000 in Nevada, and 2,000 in California. Customer growth over the past three years averaged over five percent annually. These additions are largely attributed to population growth in the service areas. Based on current commitments from builders, customer growth is expected to approximate five percent in 1998. During 1997, 55 percent of operating margin was earned in Arizona, 35 percent in Nevada, and 10 percent in California. During this same period, Southwest earned 83 percent of operating margin from residential and small commercial customers, 5 percent from other sales customers, and 12 percent from transportation customers. These patterns are consistent with prior years and are expected to continue.

In April 1996, the Company acquired all of the outstanding stock of Northern Pipeline Construction Co. (Northern or construction services segment) pursuant to a definitive agreement dated November 1995. The Company issued approximately 1,439,000 shares of common stock valued at $24 million in connection with the acquisition. The acquisition was accounted for as a purchase. Goodwill in the amount of approximately $10 million was recorded by Northern and is being amortized over 25 years. Northern provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

CAPITAL RESOURCES AND LIQUIDITY

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

Southwest continues to experience significant population growth throughout its service territories. This growth has required large amounts of capital to finance the investment in infrastructure, in the form of new transmission and distribution plant, to satisfy consumer demand. For example, during the three-year period ended December 31, 1997, total gas plant increased from $1.5 billion to $1.9 billion, or at an annual rate of nine percent. Approximately 76 percent of 1997 construction expenditures represent new construction and the balance represents costs associated with routine replacement of existing transmission, distribution, and general plant.

The investment in gas plant has required capital resources in excess of the amount of cash flow generated from operating activities (net of dividends paid). During 1997, capital expenditures were

$164 million. Cash flow from operating activities (net of dividends) provided $24 million of the required capital resources pertaining to these construction expenditures. The remainder was provided from net external financing activities including the issuances of medium-term notes totaling $100 million. Normally, internally generated funds provide a larger proportionate share of capital resources required for construction expenditures. However, cash flows from operating activities were unfavorably impacted in 1997 by unusually high working capital requirements resulting from gas costs that exceeded the rates currently being recovered from customers.

Southwest estimates construction expenditures during the three-year period ending December 31, 2000 will be approximately $510 million. During the three-year period, cash flow from operating activities (net of dividends) is estimated to fund approximately one-half of the gas operations total construction expenditures. A portion of the construction expenditure funding will be provided by $26 million of funds held in trust, at December 31, 1997, from the issuance of industrial development revenue bonds (IDRB). The remaining cash requirements are expected to be provided by external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, and growth levels in Southwest service areas. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing. Differences between estimated and actual results are expected to occur. Actual events, and the timing of those events, frequently do not occur as expected, and can impact, favorably or unfavorably, anticipated cash flows.

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

Cash flows from operating activities during the current year were negatively affected by increases in the cost of gas during the first quarter of 1997. The increase in the cost of gas resulted from several factors including reduced natural gas storage supplies nationwide following colder-than-normal temperatures in the East and Midwest during the winter heating season of 1995/1996. Domestic storage supplies were not fully replenished during the summer months of 1996 because natural gas prices did not fall as much as expected, and companies were shifting to "just-in-time" delivery practices in lieu of storage. Reduced availability coupled with increased weather-related demand for supplies during the winter heating season of 1996/1997 were the primary reasons for the increased cost of natural gas. These increases not only impacted Southwest, but local gas distribution companies throughout the country.

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. Southwest must first obtain regulatory approval before changing the rates it charges for recovery of gas costs. 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. In addition, Southwest uses this mechanism to either refund amounts overcollected or recoup amounts undercollected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. Generally, tariffs for Southwest provide for annual adjustment dates for changes in purchased gas costs. In addition, Southwest may request to adjust rates more often than once each year, if conditions warrant. These changes impact cash flows but have no direct impact on profit margin.

Higher gas costs coupled with refunds to customers of previously overcollected amounts shifted the deferred PGA balance from a $9 million payable, at December 31, 1996, to an $87 million receivable, at December 31, 1997, a $96 million change. By January 1998, Southwest had filed for recovery of the accumulated balances in all applicable rate jurisdictions. See RATES AND REGULATORY PROCEEDINGS for details of these filings.

The Company has established a common stock dividend policy which states that common stock dividends will be paid at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles. The Company's quarterly common stock dividend was 20.5 cents per share throughout 1997.

Securities ratings issued by nationally recognized ratings agencies provide a method for determining the credit worthiness of an issuer. The Company's debt ratings are important because long-term debt constitutes a significant portion of total capitalization. These debt ratings are a factor considered by lenders when determining the cost of debt for the Company (i.e., the better the rating, the lower the cost to borrow funds).

In January 1997, Moody's Investor Service rated the Company's unsecured long-term debt at Baa2. Moody's debt ratings range from AAA (best quality) to C (lowest quality). Moody's applies a Baa2 rating to obligations which are considered medium grade obligations (i.e., they are neither highly protected nor poorly secured).

In September 1997, Duff & Phelps Credit Rating Co. rated the Company's unsecured long-term debt at BBB. Duff & Phelps debt ratings range from AAA (highest rating possible) to DD (defaulted debt obligation). The Duff & Phelps rating of BBB indicates that the Company's credit quality is considered prudent for investment.

The Company's unsecured long-term debt rating from Standard and Poor's (S&P) is BBB-. S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). According to S&P, the BBB- rating indicates the debt is regarded as having an adequate capacity to pay interest and repay principal.

A securities rating is not a recommendation to buy, sell, or hold a security and is subject to change or withdrawal at any time by the rating agency.

The impact of inflation on results of operations has diminished in recent years. Natural gas, labor, and construction costs are the categories most significantly impacted by inflation. Changes to Southwest's cost of gas are generally recovered through PGA mechanisms and do not significantly impact net earnings when approved as filed. Labor is a component of the cost of service, and construction costs are the primary component of rate base. In order to recover increased costs, and earn a fair return on rate base, general rate cases are filed by Southwest, when deemed necessary, for review and approval by its regulatory authorities. Regulatory lag, that is, the time between the date increased costs are incurred and the time such increases are recovered through the ratemaking process, can impact earnings. See RATES AND REGULATORY PROCEEDINGS for discussion of recent rate case proceedings.

CONSOLIDATED RESULTS OF OPERATIONS

Contribution to Net Income YEAR ENDED DECEMBER 31,	1997	1996	1995
(Thousands of dollars)			
Continuing operations:			
Natural gas operations	$15,825	$3,919	$ 2,654
Construction services	644	2,655	--
	16,469	6,574	2,654
Discontinued operations -- financial services	--	--	(17,536)
Net income (loss)	$16,469	$6,574	$(14,882)

1997 VS. 1996 Earnings per share for the year ended December 31, 1997 were $0.61, a $0.36 increase from per share earnings of $0.25 recorded for the year ended December 31, 1996. Current-year earnings were composed of $0.59 per share from natural gas operations and $0.02 per share from construction services. Average shares outstanding increased by 1.2 million shares between years, primarily resulting from continuing issuances under the Dividend Reinvestment and Stock Purchase Plan.

1996 VS. 1995 Earnings per share for the year ended December 31, 1996 were $0.25, a $0.15 increase from per share earnings from continuing operations of $0.10 recorded for the year ended December 31, 1995. The 1996 earnings were composed of $0.15 per share from natural gas operations and $0.10 per share from construction services. Average shares outstanding increased by 2.7 million shares between years. This increase was the result of a 1.4 million share issuance in April 1996 to acquire Northern, a public offering in May 1995 and issuances under the Dividend Reinvestment and Stock Purchase Plan.

RESULTS OF NATURAL GAS OPERATIONS

YEAR ENDED DECEMBER 31, (Thousands of dollars)	1997	1996	1995
Gas operating revenues	$614,665	$546,361	$563,502
Net cost of gas sold	209,338	187,580	227,456
Operating margin	405,327	358,781	336,046
Operations and maintenance expense	201,159	198,364	187,969
Depreciation and amortization	74,528	67,443	62,492
Taxes other than income taxes	29,393	28,156	27,173
Operating income	100,247	64,818	58,412
Other income (deductions), net	(12,979)	(760)	(652)
Income before interest and income taxes	87,268	64,058	57,760
Net interest deductions	61,751	53,003	53,354
Preferred securities distributions	5,475	5,475	913
Income tax expense	4,217	1,661	839
Contribution to consolidated net income	$ 15,825	$ 3,919	$ 2,654

1997 VS. 1996 The gas segment contribution to consolidated net income increased $11.9 million from 1996. The increase was the result of fundamental improvements in operating margin coupled with more favorable weather conditions.

Operating margin increased $47 million, or 13 percent, due to customer growth, rate relief, and the return to more normal winter season temperatures following consecutive years of record-setting warm weather. Rate relief in Nevada and Arizona accounted for approximately $20 million of the operating margin increase. Colder-than-normal weather during the fourth quarter of 1997 partially offset the effects of first quarter warmer-than-normal temperatures and, overall, weather-related factors resulted in $19 million of additional operating margin. During 1997, Southwest added 59,000 customers, a five percent increase, contributing $8 million towards the change in operating margin.

Depreciation expense and general taxes increased $8.3 million, or nine percent, as a result of construction activities. Average gas plant in service increased $162 million, or ten percent, during the period. This was attributed to the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Net interest deductions during the current year increased $8.7 million, or 17 percent, from 1996. Average total debt outstanding during the period increased due to the financing of construction expenditures and working capital needs and included higher short-term debt, the issuance of medium-term notes during 1997, and the drawdown of IDRB funds held in trust. The increase in short-term debt reflected the need for short-term financing to cover higher gas costs experienced during the 1996/1997 winter heating season.

During the fourth quarter of 1997, Southwest recognized nonrecurring charges to income related to cost overruns on two separate construction projects. These charges are reflected in Other income (deductions), net. An $8 million nonrecurring pretax charge resulted from cost overruns experienced during expansion of the northern California service territory. The writeoff was part of a January 1998 settlement agreement negotiated between Southwest and the California Public Utilities Commission (CPUC) Office of Ratepayer Advocates. This agreement must be approved by the CPUC to become effective. Management expects approval of the settlement in the first half of 1998. A second pretax charge, for $5 million, related to cost overruns on a nonutility construction project. A subsidiary of the Company is building a liquefied natural gas (LNG) storage and distribution system to serve several small towns. The project will be completed in 1998. See Note 11 of the Notes to Consolidated Financial Statements for additional disclosures related to these projects. Partially offsetting these charges was the recognition of a $3.4 million income tax benefit related to the successful settlement in November 1997 of open tax issues dating back as far as 1988. The combined impact of these three nonrecurring events was a $4.1 million, or $0.15 per share, after-tax reduction to earnings.

1996 VS. 1995 Contribution to consolidated net income increased $1.3 million from 1995. The increase was due to an increase of operating income, partially offset by an increase in financing costs between periods.

Weather was the dominant factor affecting the financial performance of the gas segment in both years. Nevada experienced its second hottest year on record in 1996 while Arizona experienced one of its hottest years on record. Warm weather was particularly prevalent in the fourth quarter of 1995 and the first quarter of 1996. As a result, operating margin was approximately $23 million less than anticipated during 1996, and $28 million less than anticipated during 1995.

Despite the warm weather, operating margin increased $22.7 million, or seven percent, in 1996 when compared to 1995. Rate relief and record customer growth contributed to the improvement between periods. Effective July 1996, Southwest received a $13.8 million general rate increase applicable to its Nevada rate jurisdictions, providing $5 million in additional operating margin in 1996. During 1996, Southwest added 63,000 customers, resulting in approximately $13 million of additional operating margin.

Operations and maintenance expenses increased $10.4 million, or six percent, reflecting increases in labor and maintenance costs, including the incremental expenses associated with meeting the needs of Southwest's growing customer base.

Depreciation expense and taxes other than income taxes increased $5.9 million, or seven percent, as a result of additional plant in service. Average gas plant in service increased $142 million, or nine percent, during the current period. This is attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate customer growth.

Financing costs during the year increased $5.2 million from 1995. The increase is attributable primarily to the $60 million issuance of preferred securities in October 1995. The current year reflects the full annual cost of these securities. Financing activities also included the refunding or retirement of a significant portion of the Company's outstanding debentures with the proceeds from the sale of $150 million of debentures and proceeds from the Bank sale. During 1996, average debt outstanding decreased $18 million and consisted of an $11 million decrease in long-term debt and a $7 million decrease in short-term debt. Interest rates were generally lower on variable-rate debt.

RATES AND REGULATORY PROCEEDINGS

CALIFORNIA GENERAL RATE CASES Southwest last filed general rate applications for its California jurisdictions in 1994. Increased rates went into effect in January 1995 and continue through 1998 as part of a settlement agreement. In addition, annual operational attrition increases have been received in northern California. If the northern California expansion proposal, described below, is approved as filed, existing rates would remain intact through the year 2000.

NEVADA GENERAL RATE CASES In December 1995, Southwest filed general rate cases for its northern and southern Nevada jurisdictions. Increased rates went into effect in July 1996 as part of a settlement agreement. The settlement also specified a moratorium on future general rate increase requests until April 1999.

ARIZONA GENERAL RATE CASE In November 1996, Southwest filed a general rate application with the Arizona Corporation Commission (ACC) seeking approval to increase revenues by $49.3 million annually for both of its Arizona rate jurisdictions. Southwest was seeking rate relief for increased operating costs, changes in financing costs, and improvements and additions to the distribution system. In August 1997, the ACC approved a settlement of the general rate case providing the Company with a $32 million general rate increase effective September 1997. The settlement achieved a number of favorable rate design improvements and tariff restructuring changes including consolidation of the southern and central Arizona rate jurisdictions for ratemaking purposes and better matching of rates with the costs of serving various customer classes. The timing of the increase was important to the Company because it provided the benefit of having new rates in place before the start of the 1997/1998 winter heating season. As a result, approximately $10 million of rate relief was realized in 1997 operating margin.

FERC GENERAL RATE CASE In July 1996, Paiute Pipeline Company, a wholly owned subsidiary of the Company, filed a general rate case with the Federal Energy Regulatory Commission (FERC) seeking approval to increase revenues by $6.9 million annually. Paiute was seeking rate relief for increased costs associated with transmission system additions and improvements, higher depreciation rates, operating cost increases including labor, and an increase in the allowed rate of return. Interim rates reflecting the increased revenues became effective in January 1997, subject to refund until a final order was issued. In June 1997, a settlement agreement was filed with the FERC which was approved in November 1997 and authorized a $3.2 million general rate increase effective January 1997. Paiute had accrued a liability to customers for the difference between the rates collected since January 1997 and the amount of rate relief ultimately granted. Refunds for the difference between rates collected from customers and the rates granted were made to customers in December 1997.

NORTHERN CALIFORNIA EXPANSION In 1995, Southwest initiated a multi-year, three-phase construction project to expand its northern California service territory and extend service into Truckee, California. The CPUC imposed a $29.1 million cost cap on the project as a condition of granting Southwest a certificate of public convenience and necessity to serve the expansion areas. In 1995, Southwest completed Phase I of the expansion project, which involved transmission system reinforcement and distribution system expansion to accommodate 940 additional customers. Construction costs of $7.1 million were on target with the cost estimate approved by the CPUC.

Phase II of the project involved extending the transmission system to Truckee, California and distribution system expansion to accommodate 4,200 customers. The cost cap apportioned to Phase II was approximately $13.8 million. The incurred cost of Phase II through December 1996 was $26.9 million, with additional work remaining to complete this phase in 1997. Due to the cost overruns and difficult construction environment experienced in 1996, Phase III was postponed and 1997 construction was limited to approximately $1.8 million of expenditures incurred to complete Phase II.

In July 1997, Southwest filed an application requesting authorization from the California Public Utilities Commission (CPUC) to modify the terms and conditions of the certificate of public convenience and necessity granted by the CPUC in 1995. In this application, Southwest requested that the cost cap of $29.1 million, originally approved by the CPUC, be increased to $46.8 million; that the scope of Phase III construction be revised to include 2,900 of the initially proposed 4,200 customers; and that Southwest be permitted to collect contributions or advances from customer applicants desiring service in the expansion area who were not identified to receive service during the expansion phases as modified within the new application. Southwest proposed to recover the incremental costs above the original cost cap through a surcharge mechanism. In August 1997, the Office of Ratepayer Advocates (ORA) filed a protest to the Southwest application indicating that the terms of the original agreement should be adhered to. In September, a hearing was held to discuss the filing and related protest.

In January 1998, Southwest and the ORA executed a settlement agreement that, if approved by the CPUC, will allow Southwest to commence the final phase of the project. Under the settlement, Southwest agreed, among other things, to absorb $8 million in cost overruns experienced in Phase II of the project. Southwest also agreed to an $11 million cost cap (with a maximum of $3,800 per customer) for Phase III of the project. The Phase III project scope will be modified as requested in the July 1997 application. In addition, Southwest agreed not to file its next general rate case until Phase III is complete. A decision by the CPUC on the settlement agreement is expected during the first half of 1998.

Based on the proposed settlement agreement, Southwest recognized an $8 million nonrecurring pretax charge in the fourth quarter of 1997.

PGA FILINGS

The following table shows the most recent purchased gas adjustment (PGA) changes authorized by rate jurisdiction (thousands of dollars):

Jurisdiction	Annualized Revenue Adjustment	Percentage	Effective Date
Arizona:			
Central and Southern	$46,900	14%	April 1998
California:			
Northern	2,600	19	January 1998
Southern	10,000	19	December 1997
Nevada:			
Northern	5,200	11	December 1997
Southern	17,300	14	December 1997

ARIZONA PGA FILING. In March 1998, the Arizona Corporation Commission approved a PGA filing submitted by Southwest in January 1998 to recover deferred purchased gas costs in Arizona. This filing, which will become effective in April 1998, will result in an annual increase of $46.9 million, or 14 percent. The increase in rates is designed to recover the accumulated PGA balance related to Arizona customers over a twelve-month period, and to eliminate the refunds currently built into the rate structure.

NEVADA PGA FILING. In January 1997, Southwest submitted an out-of-period PGA filing in Nevada, in response to a substantial run-up in the commodity cost of natural gas during November and December of 1996. In September 1997, the PUCN approved the filing providing annual increases of $10.1 million, or nine percent, in the southern Nevada rate jurisdiction, and $6 million, or 14 percent, in the northern Nevada rate jurisdiction. In approving the increase, the PUCN indicated the possibility that the current PGA mechanism should be replaced with a mechanism providing a price incentive, which Southwest recommended during the hearing process.

In June 1997, Southwest submitted its annual PGA filing in compliance with the Nevada Gas Tariff. The filing covered the period from April 1996 through March 1997. In September 1997, this filing was amended to reflect changes necessary as a result of the September 1997 order on the previous PGA filing. Southwest requested annual increases of $23.1 million, or 18 percent, in the southern Nevada rate jurisdiction, and $8.4 million, or 17 percent, in the northern Nevada rate jurisdiction. Hearings on this filing commenced in October 1997.

Subsequent to the adjournment of the proceedings, the PUCN issued an order re-opening the proceedings for the limited purpose of gathering evidence, relative to a quantification of a gas cost disallowance recommended by the Regulatory Operations Staff (Staff).

In an order issued in December 1997, the PUCN found that "Southwest failed to mitigate the risk inherent in a portfolio of all indexed-priced contracts and failed to reasonably quantify the costs of any risk mitigation." As a result, Southwest was ordered to reduce its cost of gas by $3.8 million in southern Nevada and $1.8 million in northern Nevada. The approved increase, after consideration of the amounts disallowed, was $17.3 million, or 14 percent in southern Nevada, and $5.2 million, or 11 percent in northern Nevada.

In December 1997, Southwest filed a Petition for Reconsideration (Petition) of the decision with the PUCN on the grounds that the findings of fact and conclusions of law are contrary to binding legislative enactments and judicial decisions. Specifically, the Petition asserted, among other things, that the PUCN violated its settled obligation in the previous PGA docket, which included the same winter period, in finding Southwest to be imprudent. Effectively, the PUCN allowed a previously settled claim to be relitigated. In addition, management also believes that the PUCN failed to follow its previous rules and practices surrounding a PGA proceeding, or changed those rules effective with the disallowance order and sought to retroactively apply them, which would have required compliance with formal rulemaking procedures mandated by Nevada Statutes.

In January 1998, the PUCN voted unanimously to grant the Petition and reexamine the record and order with regard to the issues on which reconsideration was granted. In February 1998, the PUCN reaffirmed the original order.

In March 1998, Southwest filed a petition for judicial review (appeal) of the final order of the PUCN with the Nevada District Court. The appeal alleges the same procedural irregularities as were included in the Petition. The PUCN and other parties are allowed 30 days to file answers to the appeal and the court can then schedule a hearing upon 20 days notice.

The judicial review is conducted by the Nevada District Court without a jury and is confined to the record of the underlying proceeding. However, when allegations of irregularities in procedure are before the court, proof may be taken by the court, which Southwest will be prepared to provide. Management anticipates that judicial review will take no less than six months from the date of the filing and could take as long as two years depending on the civil trial calendar of the Nevada District Court.

Ultimately, either party or any party to the action may, within 60 days after the service of a copy of the Nevada District Court order or judgment, appeal to the Nevada Supreme Court. If this occurs, an additional period of time would be required to resolve the issue.

Management believes it is probable that the action taken to dispute the findings of fact and conclusions of law in the order will result in the successful outcome desired, specifically, that the order to exclude $5.6 million in gas costs from the PGA will be reversed. As a result, the financial statements do not reflect any charges to effect the disallowance.

RESULTS OF CONSTRUCTION SERVICES

Contribution to consolidated net income from construction services was $644,000 in 1997. In 1996, construction services contributed $2.7 million, however, those results excluded the preacquisition months January through April which are typically loss months. Construction activity is seasonal with work generally scheduled for the spring through fall months in colder climate areas, such as the Midwest. In warmer climate areas, such as the southwestern United States, construction occurs year round. The decline was primarily a result of lower-than-anticipated revenues caused by various project cancellations and curtailments in portions of California, Washington, Missouri, and Kansas. Northern has reorganized and closed offices in some of these areas and is pursuing new contracts in other areas to improve profitability. Construction revenues during 1997 were $117 million. The related costs of construction were $112 million, resulting in gross profit of approximately $5 million. Labor and equipment costs were the primary components of construction costs. General and administrative expenses were $2.8 million and interest expense was $1.5 million. Comparative information by major income statement caption was not provided since 1996 results were only for a partial year.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board (FASB) issued two new accounting pronouncements. Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," revises standards for computing and presenting earnings per share (EPS). This statement replaces the presentation of primary EPS with basic EPS and fully diluted EPS with diluted EPS. It also requires the presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. The Company implemented the requirements of SFAS No. 128 for 1997 annual reporting.

The second pronouncement issued was SFAS No. 129, "Disclosure of Information about Capital Structure." SFAS No. 129 reaffirms standards for disclosing information about an entity's capital structure. The statement becomes effective December 31, 1997. The Company adopted this standard in December 1997.

In June 1997, the FASB issued two new accounting pronouncements. SFAS No. 130, "Reporting Comprehensive Income," establishes standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. The components are required to be reported in a financial statement that is displayed with the same prominence as other financial statements. This statement becomes effective January 1, 1998. The Company has reviewed the requirements of SFAS No. 130 and does not expect any material change to its current financial statement presentation format.

The second pronouncement issued was SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 establishes standards for the way that public companies report information about operating segments in annual financial statements and requires that those companies report selected information about operating segments in annual and interim financial reports issued to shareholders. The statement becomes effective for 1998 annual financial statements. The Company early adopted the disclosure requirements of this statement for 1997 year-end reporting. See Note 13 of the Notes to Consolidated Financial Statements for segment disclosures.

In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits." SFAS No. 132 standardizes the disclosure requirements for pensions and other postretirement benefits, requires additional information to facilitate financial analysis, and eliminates certain previously required disclosures. It does not change measurement or recognition of amounts related to those plans. This statement is effective for 1998 reporting. The disclosure requirements of this statement are not expected to significantly change current reporting practices of the Company.

YEAR 2000 COMPUTER SOFTWARE MODIFICATION. The Company has computer systems which process transactions based on storing two digits for the year of a transaction (e.g. "97" for 1997) rather than four digits. These systems must be programmed to handle turn-of-the-century calculations. In 1994, the Company initiated a comprehensive review of its computer systems to identify date-sensitive systems that could be adversely affected by the year 2000. By January 1995, computer systems requiring modification or replacement to be year 2000 compliant were identified. Since that time, the Company has focused on converting all business-critical systems. As of December 31, 1997, nearly two-thirds of Company computer systems were compliant, with anticipated completion of approximately 90 and 100 percent by the end of 1998 and 1999, respectively. The total incremental costs associated with the year 2000 programming effort are immaterial. The Company has evaluated the impact to it of other companies' failure to comply and anticipates that the impact would be negligible.

COMMON STOCK PRICE AND DIVIDEND INFORMATION

	1997		1996		Dividends Paid	
	HIGH	LOW	High	Low	1997	1996
First Quarter	$20 1/4	$17 1/4	$18 5/8	$15 5/8	$0.205	$0.205
Second Quarter	19 7/8	16 1/8	17 3/8	15 3/4	0.205	0.205
Third Quarter	20 1/8	17 3/4	18 3/8	14 7/8	0.205	0.205
Fourth Quarter	19 15/16	17 1/8	19 7/8	17 3/8	0.205	0.205
					$0.820	$0.820

The principal markets on which the common stock of the Company is traded are the New York Stock Exchange and the Pacific Stock Exchange. At March 16, 1998 there were 25,723 holders of record of common stock and the market price of the common stock was $20 1/4.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE SHAREHOLDERS OF SOUTHWEST GAS CORPORATION:

We have audited the accompanying consolidated balance sheets of Southwest Gas Corporation (a California corporation, hereinafter referred to as the Company) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
February 6, 1998

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1997	1996
(Thousands of dollars, except par value)		
ASSETS		
Utility plant:		
Gas plant	$1,867,824	$1,732,405
Less: accumulated depreciation	(551,083)	(505,984)
Acquisition adjustments	4,259	5,866
Construction work in progress	39,294	46,170
Net utility plant (Note 2)	1,360,294	1,278,457
Other property and investments	64,928	71,245
Current assets:		
Cash and cash equivalents	17,567	8,280
Accounts receivable, net of allowances (Note 3)	78,016	69,000
Accrued utility revenue	54,373	46,500
Income tax benefit	19,425	--
Deferred taxes (Note 10)	--	8,009
Deferred purchased gas costs (Note 4)	86,952	--
Prepaids and other current assets	32,211	28,029
Total current assets	288,544	159,818
Deferred charges and other assets (Note 4)	55,293	50,749
Total assets	$1,769,059	$1,560,269
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $1 par (authorized -- 45,000,000 shares; issued and outstanding -- 27,387,016 and 26,732,688 shares)	$ 29,017	$ 28,363
Additional paid-in capital	360,683	349,132
Retained earnings (accumulated deficit)	(3,721)	2,121
Total common equity	385,979	379,616
Company-obligated mandatorily redeemable preferred securities of the Company's subsidiary, Southwest Gas Capital I, holding solely $61.8 million principal amount of 9.125% subordinated notes of the Company due 2025 (Note 5)	60,000	60,000
Long-term debt, less current maturities (Note 6)	778,693	665,221
Total capitalization	1,224,672	1,104,837
Commitments and contingencies (Note 8)		
Current liabilities:		
Current maturities of long-term debt (Note 6)	5,621	6,675
Short-term debt (Note 7)	142,000	121,000
Accounts payable	62,324	49,951
Customer deposits	21,945	21,133
Accrued taxes	21,125	9,977
Accrued interest	13,007	9,800
Deferred taxes (Note 10)	24,163	--
Deferred purchased gas costs (Note 4)	--	9,432
Other current liabilities	34,222	33,369
Total current liabilities	324,407	261,337
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits (Note 10)	168,282	152,063
Other deferred credits (Note 4)	51,698	42,032
Total deferred income taxes and other credits	219,980	194,095
Total capitalization and liabilities	$1,769,059	$1,560,269

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31, (In thousands, except per share amounts)	1997	1996	1995
Operating revenues:			
Gas operating revenues	$614,665	$546,361	$563,502
Construction revenues	117,345	97,700	--
Total operating revenues	732,010	644,061	563,502
Operating expenses:			
Net cost of gas sold	209,338	187,580	227,456
Operations and maintenance	201,159	198,364	187,969
Depreciation and amortization	84,661	73,699	62,492
Taxes other than income taxes	29,393	28,156	27,173
Construction expenses	105,198	84,689	--
Total operating expenses	629,749	572,488	505,090
Operating income	102,261	71,573	58,412
Other income and (expenses):			
Net interest deductions	(63,218)	(54,913)	(53,354)
Preferred securities distributions (Note 5)	(5,475)	(5,475)	(913)
Other income (deductions), net (Note 11)	(12,240)	(737)	(652)
Total other income and (expenses)	(80,933)	(61,125)	(54,919)
Income from continuing operations before income taxes	21,328	10,448	3,493
Income tax expense (Note 10)	4,859	3,874	839
Net income from continuing operations	16,469	6,574	2,654
Discontinued operations (Note 15):			
Loss from discontinued segment, net of tax benefit of $2,306 in 1995	--	--	(4,513)
Loss on disposal of discontinued segment, including tax expense of $9,900 in 1995	--	--	(13,023)
Net loss from discontinued operations	--	--	(17,536)
Net income (loss)	16,469	6,574	(14,882)
Preferred stock dividend requirements	--	--	307
Net income (loss) applicable to common stock	$ 16,469	$ 6,574	$(15,189)
Earnings per share from continuing operations	$ 0.61	$ 0.25	$ 0.10
Loss per share from discontinued operations	--	--	(0.76)
Earnings (loss) per share of common stock (Note 14)	$ 0.61	$ 0.25	$ (0.66)
Average number of common shares outstanding	27,069	25,888	23,167

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,	1997	1996	1995
(Thousands of dollars)			
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 16,469	$ 6,574	$ (14,882)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	84,661	73,699	62,492
Deferred income taxes	47,476	17,453	(15,314)
Changes in current assets and liabilities:			
Accounts receivable, net of allowances	(7,913)	(17,886)	19,719
Accrued utility revenue	(7,873)	(2,600)	3,633
Deferred purchased gas costs	(96,384)	(23,344)	47,995
Accounts payable	12,373	4,964	(7,101)
Accrued taxes	(8,277)	(19,139)	(13,820)
Other current assets and liabilities	2,004	2,498	3,661
Other	13,889	9,976	(205)
Undistributed loss from discontinued operations	--	--	11,576
Net cash provided by operating activities	56,425	52,195	97,754
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures and property additions	(169,614)	(218,835)	(166,183)
Proceeds from bank sale	--	191,662	--
Other	(1,308)	(22,112)	2,465
Net cash used in investing activities	(170,922)	(49,285)	(163,718)
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock	12,205	18,110	44,844
Issuance of trust originated preferred securities, net	--	--	57,713
Reacquisition of preferred stock	--	--	(4,000)
Dividends paid	(22,177)	(21,311)	(19,575)
Issuance of long-term debt, net	120,321	164,876	49,407
Retirement of long-term debt, net	(7,565)	(248,531)	(2,285)
Issuance (repayment) of short-term debt	21,000	81,058	(55,000)
Other	--	--	(48)
Net cash provided by (used in) financing activities	123,784	(5,798)	71,056
Change in cash and temporary cash investments	9,287	(2,888)	5,092
Cash at beginning of period	8,280	11,168	6,076
Cash at end of period	$ 17,567	$ 8,280	$ 11,168
Supplemental information:			
Interest paid, net of amounts capitalized	$ 58,771	$ 60,008	$ 62,377
Income taxes, net of refunds	$ (33,954)	$ 18,682	$ 20,413

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Total
DECEMBER 31, 1994	21,282	$22,912	$273,217	$ 52,427	$348,556
Common stock issuances	3,185	3,185	41,659		44,844
Issuance costs, preferred securities			(2,287)		(2,287)
Net loss				(14,882)	(14,882)
Dividends declared					
Preferred: $9.50 per share				(307)	(307)
Common: $0.82 per share				(19,826)	(19,826)
Redemption of preferred stock			42	(90)	(48)
DECEMBER 31, 1995	24,467	26,097	312,631	17,322	356,050
Common stock issuances	2,266	2,266	36,501		38,767
Net income				6,574	6,574
Dividends declared					
Common: $0.82 per share				(21,775)	(21,775)
DECEMBER 31, 1996	26,733	28,363	349,132	2,121	379,616
Common stock issuances	654	654	11,551		12,205
Net income				16,469	16,469
Dividends declared					
Common: $0.82 per share				(22,311)	(22,311)
DECEMBER 31, 1997	27,387*	$29,017	$360,683	$ (3,721)	$385,979

*At December 31, 1997, 2.6 million common shares were registered and available for issuance under provisions of the Employee Investment Plan, the Stock Incentive Plan, and the Dividend Reinvestment and Stock Purchase Plan.

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PRESENTATION. The Company follows generally accepted accounting principles (GAAP) in accounting for all of its businesses. Accounting for the natural gas utility operations conforms with GAAP as applied to regulated companies and as prescribed by federal agencies and the commissions of the various states in which the utility operates. The preparation of financial statements in conformity with GAAP 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.

CONSOLIDATION. The accompanying financial statements are presented on a consolidated basis and include the accounts of Southwest Gas Corporation and all wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated with the exception of transactions between Southwest and Northern. Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," provides that intercompany profits on sales to regulated affiliates should not be eliminated in consolidation if the sales price is reasonable and if future revenues approximately equal to the sales price will result from the rate-making process. Management believes these two criteria are being met. Financial services activities are classified as discontinued operations.

NET UTILITY PLANT. Net utility plant includes gas plant at original cost, less the accumulated provision for depreciation and amortization, plus the unamortized balance of acquisition adjustments. Original cost includes contracted services, material, payroll and related costs such as taxes and benefits, general and administrative expenses, and an allowance for funds used during construction less contributions in aid of construction.

DEFERRED PURCHASED GAS COSTS. The various regulatory commissions have established procedures to enable Southwest to adjust its billing rates for changes in the cost of gas purchased. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred. Generally, these deferred amounts are recovered or refunded within one to two years. Southwest must first obtain regulatory approval before changing the rates it charges for recovery of gas costs.

INCOME TAXES. The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

For regulatory and financial reporting purposes, investment tax credits (ITC) related to gas utility operations are deferred and amortized over the life of related fixed assets.

GAS OPERATING REVENUES. Revenues are recorded when customers are billed. Customer billings are based on monthly meter reads and are calculated in accordance with applicable tariffs. Southwest also recognizes accrued utility revenues for the estimated amount of services rendered between the meter-reading dates in a particular month and the end of such month.

CONSTRUCTION REVENUES. The majority of Northern's contracts are performed under unit price contracts. These contracts state prices per unit of installation. Revenues are recorded as installations are completed. Fixed-price contracts use the percentage of completion method of accounting and, therefore, take into account the cost, estimated earnings, and revenue to date on contracts not yet completed. The amount of revenue recognized is based on costs expended to date relative to anticipated final contract costs. Revisions in estimates of cost and earnings during the course of the work are reflected in the accounting period in which the facts requiring revision become known. If a loss on a contract becomes known or is anticipated, the entire amount of the estimated ultimate loss is recognized at that time in the financial statements.

DEPRECIATION AND AMORTIZATION. Utility plant depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives, including components which adjust for salvage value and removal costs, as approved by the appropriate regulatory agency. When plant is retired from service, the original cost of plant, including costs of removal, less salvage, is charged to the accumulated provision for depreciation. Acquisition adjustments are amortized, as ordered by regulators, over periods which approximate the remaining estimated life of the acquired properties. Costs related to refunding utility debt and debt issuance expenses are deferred and amortized over the weighted average lives of the new issues. Other regulatory assets, when appropriate, are amortized over time periods authorized by regulators. Nonutility property and equipment are depreciated on a straight-line method based on the estimated useful lives of the related assets.

ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC). AFUDC represents the cost of both debt and equity funds used to finance utility construction. AFUDC is capitalized as part of the cost of utility plant. The Company capitalized $1.6 million in 1997, $1.8 million in 1996, and $1.2 million in 1995 of AFUDC related to natural gas utility operations. The debt portion of AFUDC is reported in the consolidated statements of income as an offset to net interest deductions and the equity portion is reported as other income. Utility plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into operation, and general rate relief is requested and granted.

EARNINGS PER SHARE. The Company implemented Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," for 1997 financial reporting purposes. Basic earnings per share (EPS) are calculated by dividing net income (loss) applicable to common stock by the weighted average number of shares outstanding during the period. Diluted EPS includes additional weighted-average common stock equivalents (stock options and performance shares) of 66,000 shares in 1997, 37,000 shares in 1996, and 7,000 shares in 1995. Unless otherwise noted, Basic EPS and Diluted EPS are the same.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CASH FLOWS. For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and financial instruments with a maturity of three months or less, but exclude funds held in trust for industrial development revenue bonds.

RECLASSIFICATIONS. Certain reclassifications have been made to amounts shown for prior years to conform to the current-year presentation.

NOTE 2 -- NET UTILITY PLANT

Net utility plant as of December 31, 1997 and 1996 was as follows (thousands of dollars):

DECEMBER 31,	1997	1996
Gas plant:		
Storage	$ 3,233	$ 3,216
Transmission	169,033	150,898
Distribution	1,458,707	1,349,270
General	178,838	179,795
Other	58,013	49,226
	1,867,824	1,732,405
Less: accumulated depreciation	(551,083)	(505,984)
Acquisition adjustments	4,259	5,866
Construction work in progress	39,294	46,170
Net utility plant	$1,360,294	$1,278,457

Depreciation expense on gas plant was $73.5 million, $66.9 million, and $62 million during the years ended December 31, 1997, 1996, and 1995, respectively.

LEASES AND RENTALS. Southwest leases the liquefied natural gas (LNG) facilities on its northern Nevada system, a portion of its corporate headquarters office complex in Las Vegas, and its administrative offices in Phoenix. The leases provide for current terms which expire in 2003, 2017, and 2004, respectively, with optional renewal terms available at the expiration dates. The rental payments for the LNG facilities are $6.7 million annually and $36.7 million in the aggregate. The rental payments for the corporate headquarters office complex are $1.8 million for each year 1998 through 2002, and $30.1 million cumulatively thereafter. The rental payments for the Phoenix administrative offices are $1.2 million for each year 1998 through 2000, $1.3 million in 2001 and 2002, and $2.3 million cumulatively thereafter. In addition to the above, the Company leases certain office and construction equipment. The majority of these leases are short-term. These leases are accounted for as operating leases, and for the gas segment are treated as such for regulatory purposes. Rentals included in operating expenses for all operating leases were $20.7 million in 1997, $19.9 million in 1996, and $13.3 million in 1995. These amounts include Northern lease expenses of approximately $6.7 million in 1997 and $6 million in 1996 for various short-term leases of equipment and temporary office sites.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a schedule of future minimum lease payments for noncancellable operating leases (with initial or remaining terms in excess of one year) as of December 31, 1997 (thousands of dollars):

Year Ending December 31,	
1998	$10,958
1999	10,728
2000	9,807
2001	9,896
2002	9,896
Thereafter	35,600
Total minimum lease payments	$86,885

NOTE 3 -- RECEIVABLES AND RELATED ALLOWANCES

Business activity with respect to gas utility operations is conducted with customers located within the three-state region of Arizona, Nevada, and California. At December 31, 1997, gas segment receivables were $59.8 million. Approximately 57 percent of the gas utility customers were in Arizona, 33 percent in Nevada, and 10 percent in California. Although the Company seeks to minimize its credit risk related to utility operations by requiring security deposits from new customers, imposing late fees, and actively pursuing collection on certain accounts, some accounts are ultimately not collected. Provisions for uncollectible accounts are recorded monthly, as needed, and are included in the ratemaking process as a cost of service. Activity in the allowance for uncollectibles is summarized as follows (thousands of dollars):

	Allowance for Uncollectibles
Balance, December 31, 1994	$ 1,553
Additions charged to expense	1,295
Accounts written off, less recoveries	(1,621)
Balance, December 31, 1995	1,227
Additions charged to expense	1,285
Accounts written off, less recoveries	(1,002)
Balance, December 31, 1996	1,510
Additions charged to expense	1,495
Accounts written off, less recoveries	(1,427)
Balance, December 31, 1997	$ 1,578

NOTE 4 -- REGULATORY ASSETS AND LIABILITIES

Natural gas operations are subject to the regulation of the Arizona Corporation Commission (ACC), the Public Utilities Commission of Nevada (PUCN), the California Public Utilities Commission (CPUC), and the Federal Energy Regulatory Commission (FERC). The Company's accounting policies conform to generally accepted accounting principles applicable to rate-regulated enterprises and reflect the effects of the ratemaking process. Such effects concern mainly the time at which various items enter into the determination of net income in accordance with the principle of matching costs with related revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table represents existing regulatory assets and liabilities (thousands of dollars):

DECEMBER 31,	1997	1996
Regulatory assets:		
Deferred purchased gas costs	$ 86,952	$ --
SFAS No. 109 -- Income taxes, net	9,651	11,431
Unamortized premium on reacquired debt	16,803	17,440
Other	23,048	16,601
	136,454	45,472
Regulatory liabilities:		
Supplier and other rate refunds due customers	(1,059)	(3,828)
Deferred purchased gas costs	--	(9,432)
Other	(1,124)	(2,204)
Net regulatory assets	$134,271	$30,008

NOTE 5 -- PREFERRED STOCK AND PREFERRED SECURITIES

In December 1995, the Company redeemed all remaining outstanding $100 Cumulative Preferred Stock, 9.5% Series. The stock was redeemed because other less costly financing options were available.

PREFERRED SECURITIES OF SOUTHWEST GAS CAPITAL I. In October 1995, Southwest Gas Capital I (the Trust), a consolidated wholly owned subsidiary of the Company, issued $60 million of 9.125% Trust Originated Preferred Securities (the Preferred Securities). In connection with the Trust's issuance of the Preferred Securities and the related purchase by the Company of all of the Trust's common securities (the Common Securities), the Company issued to the Trust $61.8 million principal amount of its 9.125% Subordinated Deferrable Interest Notes, due 2025 (the Subordinated Notes). The sole assets of the Trust are and will be the Subordinated Notes. The interest and other payment dates on the Subordinated Notes correspond to the distribution and other payment dates on the Preferred Securities and Common Securities. Under certain circumstances, the Subordinated Notes may be distributed to the holders of the Preferred Securities and holders of the Common Securities in liquidation of the Trust. The Subordinated Notes are redeemable at the option of the Company on or after December 31, 2000, at a redemption price of $25 per Subordinated Note plus accrued and unpaid interest. In the event that the Subordinated Notes are repaid, the Preferred Securities and the Common Securities will be redeemed on a pro rata basis at $25 per Preferred Security and Common Security plus accumulated and unpaid distributions. The Company's obligations under the Subordinated Notes, the Declaration of Trust (the agreement under which the Trust was formed), the guarantee of payment of certain distributions, redemption payments and liquidation payments with respect to the Preferred Securities to the extent the Trust has funds available therefor and the indenture governing the Subordinated Notes, including the Company's agreement pursuant to such indenture to pay all fees and expenses of the Trust, other than with respect to the Preferred 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 Securities. As of December 31, 1997, 2.4 million Preferred Securities were outstanding.

The Company has the right to defer payments of interest on the Subordinated Notes 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 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 9.125% per annum compounded quarterly. There could be multiple Extension Periods of varying lengths throughout the term of the Subordinated Notes. 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 Company that rank equal with or junior to the Subordinated Notes; 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.

NOTE 6 -- LONG-TERM DEBT

	1997		1996	
DECEMBER 31,	Carrying Amount	Market Value	Carrying Amount	Market Value
(Thousands of dollars)				
Debentures and Notes:				
9 3/4% Series F, due 2002	$100,000	$112,120	$100,000	$112,960
7 1/2% Series, due 2006	75,000	78,116	75,000	76,740
8% Series, due 2026	75,000	82,028	75,000	78,600
Medium-term notes, 7.59% series, due 2017	25,000	26,214	--	--
Medium-term notes, 7.78% series, due 2022	25,000	26,735	--	--
Medium-term notes, 7.92% series, due 2027	25,000	27,121	--	--
Medium-term notes, 6.89% series, due 2007	17,500	17,327	--	--
Medium-term notes, 6.76% series, due 2027	7,500	7,079	--	--
Unamortized discount	(3,592)	--	(3,137)	--
	346,408		246,863	
Term-loan facilities	200,000	200,000	184,000	184,000
Industrial development revenue bonds:				
Variable-rate bonds				
Series A, due 2028	50,000	50,000	50,000	50,000
Less funds held in trust	(25,926)	--	(30,261)	--
	24,074		19,739	
Fixed-rate bonds				
7.30% 1992 Series A, due 2027	30,000	30,288	30,000	32,029
7.50% 1992 Series B, due 2032	100,000	102,883	100,000	107,232
6.50% 1993 Series A, due 2033	75,000	67,661	75,000	75,241
Unamortized discount	(3,551)	--	(3,654)	--
	201,449		201,346	
Other	12,383	--	19,948	--
	784,314		671,896	
Less current maturities	(5,621)		(6,675)	
Long-term debt, less current maturities	$778,693		$665,221	

In October 1996, the Company filed a $250 million shelf registration statement. In connection with this registration statement, the Company may offer, up to the registered amount, any combination of debt securities, preferred stock, depositary shares, and common stock. This registration statement included a carryforward of $60 million remaining from a prior shelf registration statement declared effective by the Securities and Exchange Commission in October 1995. The Company filed a prospectus supplement in December 1996 identifying $150 million of the shelf as medium-term notes. During 1997, the Company issued $100 million of medium-term notes at various interest rates and maturity dates.

In June 1997, the Company entered into a $350 million revolving credit agreement which replaced a previous $200 million term-loan facility and a $150 million short-term credit line. Revolving credit loans bear interest at either the London Interbank Offering Rate (LIBOR) plus or minus a competitive margin or prime rate plus one half of one percent of the Federal Funds rate. Any amounts borrowed under the revolving credit agreement become payable in June 2002. The Company has designated $200 million of the total facility as long-term debt and plans to use the remaining $150 million for working capital purposes and has designated the related outstanding amounts as short-term debt.

The interest rate on the variable-rate industrial development revenue bonds (IDRB) is established on a weekly basis and averaged 4.18 percent in 1997, 4.16 percent in 1996, and 4.80 percent in 1995. At the option of the Company, the interest period can be converted from a weekly rate to a daily-term or variable-term rate.

The fair value of the term-loan facilities approximates carrying value. Market values for the debentures and fixed-rate IDRB were determined based on dealer quotes using trading records for December 31, 1997 and 1996, as applicable, and other secondary sources which are customarily consulted for data of this kind. The carrying value of the IDRB Series due 2028 was used as the estimate of fair value based upon the variable interest rate of the bonds.

Estimated maturities of long-term debt for the next five years are expected to be $5.6 million, $4 million, $2.7 million, $71,000 and $300 million, respectively.

In June 1996, the Financial Accounting Standards Board (FASB) issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement became effective January 1, 1997. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

NOTE 7 -- SHORT-TERM DEBT

A portion of the $350 million revolving credit facility, discussed in Note 6, replaced the various credit lines which aggregated $150 million. Short-term borrowings were $142 million and $121 million at December 31, 1997 and 1996, respectively. The weighted average interest rates on these borrowings were 6.54 percent at December 31, 1997 and 6.83 percent at December 31, 1996.

In October 1997, the Company entered into a $50 million unsecured line of credit agreement with various banks, for general working capital purposes which expires in October 1998. Interest is payable monthly at competitive rates similar to the Company's revolving credit agreement. During 1997, no amounts were outstanding on this line of credit.

NOTE 8 -- COMMITMENTS AND CONTINGENCIES

LEGAL PROCEEDINGS. The Company has been named as defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that no litigation to which the Company is subject will have a material adverse impact on its financial position or results of operations.

NEVADA PURCHASED GAS ADJUSTMENT (PGA) FILING. In January 1997, Southwest submitted an out-of-period PGA filing in Nevada, in response to a substantial run-up in the commodity cost of natural gas during November and December of 1996. In September 1997, the PUCN approved the filing providing annual increases of $10.1 million, or nine percent, in the southern Nevada rate jurisdiction, and $6 million, or 14 percent, in the northern Nevada rate jurisdiction. In approving the increase, the PUCN indicated the possibility that the current PGA mechanism should be replaced with a mechanism providing a price incentive, which Southwest recommended during the hearing process.

In June 1997, Southwest submitted its annual PGA filing in compliance with the Nevada Gas Tariff. The filing covered the period from April 1996 through March 1997. In September 1997, this filing was amended to reflect changes necessary as a result of the September 1997 order on the previous PGA filing. Southwest requested annual increases of $23.1 million, or 18 percent, in the southern Nevada rate jurisdiction, and $8.4 million, or 17 percent, in the northern Nevada rate jurisdiction. Hearings on this filing commenced in October 1997.

Subsequent to the adjournment of the proceedings, the PUCN issued an order re-opening the proceedings for the limited purpose of gathering evidence, relative to a quantification of a gas cost disallowance recommended by the Regulatory Operations Staff (Staff).

In an order issued in December 1997, the PUCN found that "Southwest failed to mitigate the risk inherent in a portfolio of all indexed-priced contracts and failed to reasonably quantify the costs of any risk mitigation." As a result, Southwest was ordered to reduce its cost of gas by $3.8 million in southern Nevada and $1.8 million in northern Nevada. The approved increase, after consideration of the amounts disallowed, was $17.3 million, or 14 percent in southern Nevada, and $5.2 million, or 11 percent in northern Nevada.

In December 1997, Southwest filed a Petition for Reconsideration (Petition) of the decision with the PUCN on the grounds that the findings of fact and conclusions of law are contrary to binding legislative enactments and judicial decisions. Specifically, the Petition asserted, among other things, that the PUCN violated its settled obligation in the previous PGA docket, which included the same winter period, in finding Southwest to be imprudent. Effectively, the PUCN allowed a previously settled claim to be relitigated. In addition, management also believes that the PUCN failed to follow its previous rules and practices surrounding a PGA proceeding, or changed those rules effective with the disallowance order and sought to retroactively apply them, which would have required compliance with formal rulemaking procedures mandated by Nevada Statutes.

In January 1998, the PUCN voted unanimously to grant the Petition and reexamine the record and order with regard to the issues on which reconsideration was granted. In February 1998, the PUCN reaffirmed the original order.

In March 1998, Southwest filed a petition for judicial review (appeal) of the final order of the PUCN with the Nevada District Court. The appeal alleges the same procedural irregularities as were included in the Petition. The PUCN and other parties are allowed 30 days to file answers to the appeal and the court can then schedule a hearing upon 20 days notice.

The judicial review is conducted by the Nevada District Court without a jury and is confined to the record of the underlying proceeding. However, when allegations of irregularities in procedure are before the court, proof may be taken by the court, which Southwest will be prepared to provide. Management anticipates that judicial review will take no less than six months from the date of the filing and could take as long as two years depending on the civil trial calendar of the Nevada District Court.

Ultimately, either party or any party to the action may, within 60 days after the service of a copy of the Nevada District Court order or judgment, appeal to the Nevada Supreme Court. If this occurs, an additional period of time would be required to resolve the issue.

Management believes it is probable that the action taken to dispute the findings of fact and conclusions of law in the order will result in the successful outcome desired, specifically, that the order to exclude $5.6 million in gas costs from the PGA will be reversed. As a result, the financial statements do not reflect any charges to effect the disallowance.

NOTE 9 -- EMPLOYEE BENEFITS

Southwest has a qualified retirement plan covering its employees. The plan is noncontributory with defined benefits, and covers substantially all employees. Southwest's policy is to fund the plan at not

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

less than the minimum required contribution nor more than the tax deductible limit. Plan assets are held in a trust whose investments consist of common stock, corporate bonds, government obligations, real estate, a mutual fund investing in foreign stocks, an insurance company contract, and cash or cash equivalents.

The plan provides that an employee may earn benefits for a period of up to 30 years and will be vested after 5 years of service. Retirement plan costs were $7.2 million in 1997, $7.2 million in 1996, and $6.8 million in 1995.

The following table sets forth the plan's funded status and amounts recognized on the Consolidated Balance Sheets and Statements of Income.

DECEMBER 31,	1997	1996
(Thousands of dollars)		
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $(128,464) and $(124,156), respectively	$(137,871)	$(133,752)
Projected benefit obligation for service rendered to date	$(190,389)	$(187,183)
Market value of plan assets	232,413	195,994
Assets in excess of projected benefit obligation	42,024	8,811
Unrecognized net transition obligation being amortized through 2004	4,979	5,816
Unrecognized net loss (gain)	(48,647)	(14,741)
Unrecognized prior service cost	352	409
Prepaid (accrued) pension cost included in the Consolidated Balance Sheets	$ (1,292)	$ 295
Assumptions used to develop pension obligations were:		
Discount rate	7.50%	7.00%
Long-term rate of return on assets	9.00%	9.00%
Rate of increase in compensation levels	4.75%	4.75%

YEAR ENDED DECEMBER 31,	1997	1996	1995
(Thousands of dollars)			
Net retirement plan costs include the following components:			
Service cost	$ 9,630	$ 8,762	$ 7,153
Interest cost	12,945	11,993	11,084
Actual return on plan assets	(35,305)	(23,511)	(35,557)
Net amortization and deferrals	19,929	9,976	24,136
Net periodic retirement plan cost	$ 7,199	$ 7,220	$ 6,816

In addition to the basic retirement plan, Southwest has a separate unfunded supplemental retirement plan which is limited to certain officers. The plan is noncontributory with defined benefits. Senior officers who retire with ten years or more of service with Southwest are eligible to receive benefits. Other officers who retire with 20 years or more of service with Southwest are eligible to receive benefits. Plan costs were $2 million in 1997, $1.8 million in 1996, and $2 million in 1995. The accumulated benefit obligation of the plan was $16.4 million, including vested benefits of $15.1 million, at December 31, 1997. Southwest also has an unfunded retirement plan for directors not covered by the employee retirement plan. The cost and liability for this plan are not significant.

The Employees' Investment Plan provides for purchases of the Company's common stock or certain other investments by eligible Southwest employees through deductions of up to 16 percent

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of base compensation, subject to IRS limitations. Southwest matches one-half of amounts deferred up to six percent of an employee's annual compensation. The cost of the plan was $2.5 million in 1997, $2.6 million in 1996, and $2.3 million in 1995. Northern has a separate plan, the cost and liability for which are not significant.

Southwest has a deferred compensation plan for all officers and members of the Board. The plan provides the opportunity to defer from a minimum of $2,000 up to 50 percent of annual compensation. Southwest matches one-half of amounts deferred up to six percent of an officer's annual salary. Payments of compensation deferred, plus interest, commence upon the participant's retirement in equal monthly installments over 10, 15, or 20 years, as determined by Southwest. Deferred compensation earns interest at a rate determined each January. The interest rate represents 150 percent of Moody's Seasoned Corporate Bond Index.

Southwest provides postretirement benefits other than pensions (PBOP) to its qualified retirees for health care, dental, and life insurance. Southwest accounts for PBOP on an accrual basis. The PUCN, CPUC, and FERC previously approved the use of accrual accounting for ratemaking purposes, subject to certain conditions, including funding. As part of the September 1997 settlement agreement with the ACC in conjunction with the general rate case, Southwest received approval to recover PBOP costs on an accrual basis in its Arizona rate jurisdiction. Southwest began funding the non-Arizona portion of the PBOP liability in 1994. Funding for the Arizona portion of the PBOP liability will begin in 1998. Plan assets are pooled with the pension plan assets for investment purposes.

The following table sets forth the PBOP funded status and amounts recognized on the Company's Consolidated Balance Sheets and Statements of Income.

DECEMBER 31,	1997	1996
(Thousands of dollars)		
Accumulated postretirement benefit obligation (APBO)		
Retirees	$(12,831)	$(14,291)
Fully eligible actives	(2,447)	(2,322)
Other active participants	(6,420)	(7,275)
Total	(21,698)	(23,888)
Market value of plan assets	3,581	2,408
APBO in excess of plan assets	(18,117)	(21,480)
Unrecognized transition obligation	13,004	13,871
Unrecognized prior service cost	--	--
Unrecognized loss (gain)	(1,151)	2,543
Accrued postretirement benefit liability	$ (6,264)	$ (5,066)
Assumptions used to develop postretirement benefit obligations were:		
Discount rate	7.50%	7.00%
Medical inflation	7.50% GRADED TO 5%	8% graded to 5%
Salary increases	4.75%	4.75%

The Company makes fixed contributions, based on age and years of service, to retiree spending accounts for the medical and dental costs of employees who retire after 1988. The Company pays up to 100 percent of the medical coverage costs for employees who retired prior to 1989. The medical inflation assumptions in the table above apply to the benefit obligations for pre-1989 retirees only. The inflation assumption at December 31, 1997, was estimated at 7.5 percent for 1998, and decreases one-half of one percent per year until 2003, at which time the average annual increase is projected to be five percent. A one percent increase in these assumptions would change the accumulated post retirement benefit obligation by approximately $800,000 at December 31, 1997. Future annual benefit costs would increase $120,000.

YEAR ENDED DECEMBER 31,	1997	1996	1995
(Thousands of dollars)			
Net periodic postretirement benefit costs include the following components:			
Service cost	$ 567	$ 521	$ 399
Interest cost	1,638	1,638	1,562
Actual return on plan assets	(479)	(252)	(286)
Net amortization and deferrals	1,114	997	1,061
Net periodic postretirement benefit cost	$ 2,840	$2,904	$2,736

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation." This new standard permits the continued use of accounting methods prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," or use of the fair value based method of accounting as encouraged by the statement. The following disclosure complies with the requirements of the new standard.

At December 31, 1997, the Company had two stock-based compensation plans. These plans are accounted for in accordance with APB Opinion No. 25. In connection with the stock-based compensation plans, the Company recognized compensation expense of $1 million in 1997, $571,000 in 1996, and $300,000 in 1995. Had compensation cost been determined based on the fair value of the awards at the grant dates, net income and earnings per share would have reflected the pro forma amounts indicated below (thousands of dollars, except per share amounts):

		1997	1996	1995
Net income (loss)	As reported	$16,469	$6,574	$(14,882)
	Pro forma	16,318	6,535	(14,871)
Earnings (loss) per share	As reported	0.61	0.25	(0.66)
	Pro forma	0.60	0.25	(0.66)

With respect to the first plan, the Company may grant options to purchase shares of common stock to key employees and outside directors. Each option has an exercise price equal to the market price of Company common stock on the date of grant and a maximum term of 10 years. In 1997, 121,000 options were granted. The options vest 40 percent at the end of year one and 30 percent at the end of years two and three. The grant date fair value of the options was estimated using the extended binomial option pricing model. The following assumptions were used in the valuation calculation:

	1997	1996
Dividend yield	4.09%	4.65%
Risk-free interest rate range	5.28 TO 5.38%	5.83 to 6.42%
Expected volatility range	22 TO 24%	22 to 25%
Expected life	1 TO 3 YEARS	1 to 3 years

The following tables summarize the Company's stock option plan activity and related information (thousands of options):

	1997	1996
Options at beginning of year	380	--
Granted	121	380
Forfeited	(29)	--
Options at end of year	472	380
Weighted-average fair value of options at grant date	$2.26	$1.79
Weighted-average remaining contractual life (at December 31, 1997)	9.5 YEARS	8.5 years

Outstanding options exercisable as of:	Number	Weighted average exercise price
December 31, 1997	140	$15.00

In addition to the option plan, the Company may issue restricted stock in the form of performance shares to encourage key employees to remain in its employment to achieve short-term and long-term performance goals. Plan participants are eligible to receive a cash bonus (i.e., short-term incentive) and performances shares (i.e., long-term incentive). The performance shares vest over a period of three years and are subject to a final adjustment as determined by the Board of Directors. The following table summarizes the activity of this plan (thousands of shares):

YEAR ENDED DECEMBER 31,	1997	1996	1995
Nonvested performance shares at beginning of year	93	41	18
Performance shares granted	59	64	25
Performance shares forfeited	--	--	--
Shares vested and issued	(26)	(12)	(2)
Nonvested performance shares at end of year	126	93	41
Grant date fair value of award	$19.25	$17.63	$15.25

NOTE 10 -- INCOME TAXES

Income tax expense (benefit) consists of the following (thousands of dollars):

YEAR ENDED DECEMBER 31,	1997	1996	1995
Current:			
Federal	$(42,921)	$(15,087)	$ 13,588
State	(2,227)	(1,566)	1,985
	(45,148)	(16,653)	15,573
Deferred:			
Federal	47,614	18,832	(13,752)
State	2,393	1,695	(982)
	50,007	20,527	(14,734)
Total income tax expense	$ 4,859	$ 3,874	$ 839

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred income tax expense (benefit) consists of the following significant components (thousands of dollars):

YEAR ENDED DECEMBER 31,	1997	1996	1995
Deferred federal and state:			
Property-related items	$19,006	$11,586	$ 4,921
Purchased gas cost adjustments	37,156	8,437	(16,488)
All other deferred	(5,287)	1,372	(2,299)
Total deferred federal and state	50,875	21,395	(13,866)
Deferred investment tax credit, net	(868)	(868)	(868)
Total deferred income tax expense (benefit)	$50,007	$20,527	$(14,734)

The consolidated effective income tax rate for the period ended December 31, 1997 and the two prior periods differs from the federal statutory income tax rate. The sources of these differences and the effect of each are summarized as follows:

YEAR ENDED DECEMBER 31,	1997	1996	1995
Federal statutory income tax rate	35.0%	35.0%	35.0%
Net state tax liability	4.2	5.0	9.0
Property-related items	3.8	8.8	24.1
Effect of Internal Revenue Service Examination	(16.0)	--	--
Tax credits	(4.0)	(8.3)	(22.7)
Tax exempt interest	(1.7)	(3.7)	(13.8)
Corporate-owned life insurance	(1.0)	(4.0)	(12.5)
All other differences	2.5	4.3	4.9
Consolidated effective income tax rate	22.8%	37.1%	24.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets and liabilities consist of the following (thousands of dollars):

DECEMBER 31,	1997	1996
Deferred tax assets:		
Deferred income taxes for future amortization of ITC	$ 12,201	$ 12,729
Employee benefits	7,459	6,194
Regulatory balancing accounts	--	3,832
Other	9,278	4,415
Valuation allowance	--	--
	28,938	27,170
Deferred tax liabilities:		
Property-related items, including accelerated depreciation	133,539	114,176
Regulatory balancing accounts	33,626	--
Property-related items previously flowed-through	21,851	24,160
Unamortized ITC	18,138	19,006
Debt-related costs	6,458	6,757
Other	7,771	7,125
	221,383	171,224
Net deferred tax liabilities	$192,445	$144,054
Current	$ 24,163	$ (8,009)
Noncurrent	168,282	152,063
Net deferred tax liabilities	$192,445	$144,054

At December 31, 1997, the Company has a federal net operating loss carryforward of $29.1 million which expires in 2012. The Company also has state net operating loss carryforwards of $73.8 million and $5.9 million for Arizona and California, respectively, which expire in 2001 to 2002. Additionally, the Company has an alternative minimum tax credit carryforward of approximately $7.2 million which can be carried forward indefinitely.

NOTE 11 -- CALIFORNIA EXPANSION AND LNG CONSTRUCTION PROJECTS

NORTHERN CALIFORNIA EXPANSION. In 1995, Southwest initiated a multi-year, three-phase construction project to expand its northern California service territory and extend service into Truckee, California. The CPUC imposed a $29.1 million cost cap on the project as a condition of granting Southwest a certificate of public convenience and necessity to serve the expansion areas. In 1995, Southwest completed Phase I of the expansion project, which involved transmission system reinforcement and distribution system expansion to accommodate 940 additional customers. Construction costs of $7.1 million were on target with the cost estimate approved by the CPUC.

Phase II of the project involved extending the transmission system to Truckee, California and distribution system expansion to accommodate 4,200 customers. The cost cap apportioned to Phase II was approximately $13.8 million. The incurred cost of Phase II through December 1996 was $26.9 million, with additional work remaining to complete this phase in 1997. Due to the cost overruns and difficult construction environment experienced in 1996, Phase III was postponed and 1997 construction was limited to approximately $1.8 million of expenditures incurred to complete Phase II.

In July 1997, Southwest filed an application requesting authorization from the California Public Utilities Commission (CPUC) to modify the terms and conditions of the certificate of public convenience and necessity granted by the CPUC in 1995. In this application, Southwest requested that the cost cap of $29.1 million, originally approved by the CPUC, be increased to $46.8 million;

that the scope of Phase III construction be revised to include 2,900 of the initially proposed 4,200 customers; and that Southwest be permitted to collect contributions or advances from customer applicants desiring service in the expansion area who were not identified to receive service during the expansion phases as modified within the new application. Southwest proposed to recover the incremental costs above the original cost cap through a surcharge mechanism. In August 1997, the Office of Ratepayer Advocates (ORA) filed a protest to the Southwest application indicating that the terms of the original agreement should be adhered to. In September, a hearing was held to discuss the filing and related protest.

In January 1998, Southwest and the ORA executed a settlement agreement that, if approved by the CPUC, will allow Southwest to commence the final phase of the project. Under the settlement, Southwest agreed, among other things, to absorb $8 million in cost overruns experienced in Phase II of the project. Southwest also agreed to an $11 million cost cap (with a maximum of $3,800 per customer) for Phase III of the project. The Phase III project scope will be modified as requested in the July 1997 application. In addition, Southwest agreed not to file its next general rate case until Phase III is complete. A decision by the CPUC on the settlement agreement is expected during the first half of 1998.

Based on the proposed settlement agreement, Southwest recognized an $8 million nonrecurring pretax charge in the fourth quarter of 1997.

LNG STORAGE AND DISTRIBUTION SYSTEM. A subsidiary of the Company entered into an agreement to build Liquefied Natural Gas (LNG) storage and distribution systems to serve several small towns. The subsidiary contracted to provide project management services, materials, two gas distribution systems, and two LNG storage and vaporization systems. The project was expected to be completed by November 1997 but will extend into 1998. The total project cost at its completion is estimated to exceed the contract price by approximately $5 million. A pretax charge of $5 million was recorded in 1997 and is included in Other income (deductions), net on the Consolidated Statements of Income.

NOTE 12 -- ACQUISITION OF NORTHERN PIPELINE CONSTRUCTION CO.

On April 29, 1996, the Company acquired all of the outstanding stock of Northern Pipeline Construction Co. (Northern or the construction services segment) pursuant to a definitive agreement dated November 1995. The Company issued approximately 1,439,000 shares of common stock valued at $24 million in connection with the acquisition. The acquisition was accounted for as a purchase. Goodwill in the amount of approximately $10 million was recorded by Northern and is being amortized over 25 years. Northern provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

During 1997, Northern recognized $36 million of revenues generated from contracts with Southwest. During the period from the acquisition date through December 31, 1996, the construction services segment recognized $36 million of revenues generated from contracts with Southwest. These revenues and associated profits are included in the consolidated financial statements of the Company and were not eliminated during consolidation. SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," provides that intercompany profits on sales to regulated affiliates should not be eliminated in consolidation if the sales price is reasonable and if future revenues approximately equal to the sales price will result from the rate-making process. Management believes these two criteria are being met. At December 31, 1997 and 1996, consolidated accounts receivable included $3.6 million and $6.4 million, respectively, which were not eliminated during consolidation.

The assets acquired and the liabilities assumed at the acquisition date were as follows (thousands of dollars):

Other property and investments	$26,490
Receivables, net	12,928
Prepaids and other current assets	2,545
Deferred charges and other assets	11,340
Total assets acquired	53,303
Long-term debt and capital leases, including current maturities	14,691
Short-term debt	2,942
Accounts payable	3,123
Other current liabilities	6,759
Deferred income taxes	4,737
Other deferred credits	394
Total liabilities assumed	32,646
Net noncash assets acquired	20,657
Cash acquired in acquisition and included in 1996 cash flow statement	3,343
Total common equity issued in acquisition	$24,000

NOTE 13 -- SEGMENT INFORMATION

The Company's operating segments are determined based on the nature of their activities. The natural gas operations segment is engaged in the business of purchasing, transporting, and distributing natural gas. Revenues are generated from the sale and transportation of natural gas. The construction services segment is engaged in the business of providing utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

The accounting policies of the reported segments are the same as those described within Note 1 -- Summary of Significant Accounting Policies. Northern accounts for the services provided to Southwest at contractual (market) prices.

The financial information pertaining to the Company's natural gas operations and construction services segments for each of the three years in the period ended December 31, 1997, is as follows (thousands of dollars):

	1997			
	GAS OPERATIONS	CONSTRUCTION SERVICES	ADJUSTMENTS	TOTAL
Revenues from unaffiliated customers	$ 614,665	$ 81,421		$ 696,086
Intersegment sales	--	35,924		35,924
Total	$ 614,665	$117,345		$ 732,010
Interest expense	$ 61,751	$ 1,467		$ 63,218
Depreciation and amortization	$ 74,528	$ 10,133		$ 84,661
Income tax expense	$ 4,217	$ 642		$ 4,859
Segment income	$ 15,825	$ 644		$ 16,469
Segment assets	$1,717,025	$ 52,919	$(885)	$ 1,769,059
Capital expenditures	$ 164,528	$ 5,086		$ 169,614

	1996			
	Gas Operations	Construction Services	Adjustments	Total
Revenue from unaffiliated customers	$ 546,361	$61,646		$ 608,007
Intersegment sales	--	36,054		36,054
Total	$ 546,361	$97,700		$ 644,061
Interest expense	$ 53,003	$ 1,910		$ 54,913
Depreciation and amortization	$ 67,443	$ 6,256		$ 73,699
Income tax expense	$ 1,661	$ 2,213		$ 3,874
Segment income	$ 3,919	$ 2,655		$ 6,574
Segment assets	$1,498,099	$62,315	$(145)	$1,560,269
Capital expenditures	$ 210,743	$ 8,092		$ 218,835

	1995			
	Gas Operations	Construction Services	Adjustments	Total
Revenue from unaffiliated customers	$ 563,502	$ --		$ 563,502
Intersegment sales	--	--		--
Total	$ 563,502	$ --		$ 563,502
Interest expense	$ 53,354	$ --		$ 53,354
Depreciation and amortization	$ 62,492	$ --		$ 62,492
Income tax expense	$ 839	$ --		$ 839
Segment income	$ 2,654	$ --		$ 2,654
Segment assets	$1,357,034	$ --		$1,357,034
Capital expenditures	$ 166,183	$ --		$ 166,183

Construction services segment interest expense and income tax expense, for the year ended December 31, 1996, include allocations of $968,000 and $(387,000), respectively, from the gas operations segment. For the year ended December 31, 1997, no allocations from the gas operations segment to the construction services segment were made.

Construction services segment assets, for the years ended December 31, 1997 and 1996, include deferred tax assets of $885,000 and $145,000 respectively, which were netted against gas operations segment deferred tax liabilities during consolidation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 -- QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarter Ended	March 31	June 30	September 30	December 31
(Thousands of dollars, except per share amounts)				
1997				
Operating revenues	$235,231	$136,938	$128,698	$231,143
Operating income (loss)	51,515	(3,982)	(7,248)	61,976
Net income (loss)	21,568	(12,748)	(15,686)	23,335
Earnings (loss) per common share*	0.80	(0.47)	(0.58)	0.85
1996				
Operating revenues	$188,352	$123,611	$125,255	$206,843
Operating income (loss)	38,539	(4,747)	(8,404)	46,185
Net income (loss)	14,859	(11,943)	(14,638)	18,296
Earnings (loss) per common share*	0.60	(0.46)	(0.55)	0.69**
1995				
Operating revenues	$203,521	$122,189	$ 91,433	$146,359
Operating income (loss)	36,829	(2,873)	(9,215)	33,671
Income (loss) from continuing operations	14,449	(9,951)	(13,353)	11,509
Income (loss) from discontinued operations	196	610	522	(18,864)
Net income (loss)	14,645	(9,341)	(12,831)	(7,355)
Net income (loss) applicable to common stock	14,550	(9,436)	(12,926)	(7,377)
Earnings (loss) per share from continuing operations*	0.67	(0.44)	(0.56)	0.47
Earnings (loss) per share from discontinued operations*	0.01	0.03	0.02	(0.77)
Earnings (loss) per common share*	0.68	(0.41)	(0.54)	(0.30)

- ------------------------------

* The sum of quarterly earnings (loss) per average common share may not equal the annual earnings (loss) per share due to the ongoing change in the weighted average number of common shares outstanding.

** Basic EPS was $0.69 while Diluted EPS was $0.68.

The demand for natural gas is seasonal, and it is management's opinion that comparisons of earnings for the interim periods do not reliably reflect overall trends and changes in the Company's operations. Also, the timing of general rate relief can have a significant impact on earnings for interim periods. See Management's Discussion and Analysis for additional discussion of the Company's operating results.

NOTE 15 -- DISCONTINUED OPERATIONS -- FINANCIAL SERVICES ACTIVITIES

In July 1996, the Company completed the sale of the assets and liabilities of PriMerit Bank (the Bank) to Norwest Corporation for $191 million. Proceeds from the sale were used by the Company to retire debt incurred in connection with its investment in the Bank. The loss on the sale, recorded during the fourth quarter of 1995, was $13 million, including taxes. Income tax expense resulted from the loss due to the Company's investment in the Bank being lower for tax purposes than book purposes. The results of operations of the Bank have been included as discontinued operations in the accompanying financial statements.

SHAREHOLDER INFORMATION

STOCK LISTING INFORMATION

DIVIDENDS

Southwest Gas Corporation's common stock is listed on the New York Stock Exchange under the ticker symbol "SWX." Quotes may be obtained in daily financial newspapers or some local newspapers where it is listed under "SoWestGas."

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on May 14, 1998 at 10:00 a.m. at the headquarters of Southwest Gas Corporation, 5241 Spring Mountain Road, Las Vegas, Nevada 89102.

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Southwest Gas Corporation's Dividend Reinvestment and Stock Purchase Plan (DRSPP) provides common shareholders, customers, employees and residents of Arizona, California and Nevada with a simple and convenient method of investing cash dividends in additional shares of the Company's stock without payment of any brokerage commission. The DRSPP features include:

- Initial investments of $100, up to $50,000 annually
- Automatic investing
- No commissions on purchases
- Safekeeping for common stock certificates

For more information contact Shareholder Services, Southwest Gas Corporation, P.O. Box 98511, Las Vegas, Nevada 89193-8511 or call (702) 876-7280.

Dividends on common stock are declared quarterly by the Board of Directors. As a general rule, they are payable on the first day of March, June, September and December.

TRANSFER AGENT

Shareholder Services
Southwest Gas Corporation
P.O. Box 98511
Las Vegas, NV 89193-8511

REGISTRAR

Southwest Gas Corporation
P.O. Box 98510
Las Vegas, NV 89193-8510

INVESTOR RELATIONS

Southwest Gas is committed to providing relevant and complete investment information to shareholders, individual investors and members of the investment community. Copies of the Company's 1997 Annual Report on Form 10-K, without exhibits, as filed with the Securities and Exchange Commission may be obtained upon request free of charge. Additional financial information may be obtained by contacting Laura Hobbs, Investor Relations, Southwest Gas Corporation, P.O. Box 98510, Las Vegas, Nevada 89193-8510 or by calling (702) 876-7237.

AUDITORS

Arthur Andersen LLP
3773 Howard Hughes Pkwy.
Suite 500 South
Las Vegas, Nevada 89109

EXHIBIT 21.01

SOUTHWEST GAS CORPORATION
LIST OF SUBSIDIARIES OF THE REGISTRANT
AT DECEMBER 31, 1997

SUBSIDIARY NAME	STATE OF INCORPORATION OR ORGANIZATION TYPE
LNG Energy, Inc.	Nevada
Paiute Pipeline Company	Nevada
Northern Pipeline Construction Co.	Nevada
Southwest Gas Transmission Company	Partnership between Southwest Gas Corporation and Utility Financial Corp.
Southwest Gas Capital I	Delaware
Utility Financial Corp.	Nevada

EXHIBIT 23.01

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated February 6, 1998, incorporated by reference in this Form 10-K, into Southwest Gas Corporation's previously filed registration statements on Form S-8 (File No. 33-58135), Form S-3 (File No. 333-14605), Form S-3 (File No. 333-17667), Form S-8 (File No. 333-31223), and Form S-8 (File No. 333-31267).

ARTHUR ANDERSEN LLP

Las Vegas, Nevada
March 25, 1998

UT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SOUTHWEST GAS CORPORATION'S FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR
DEC-31-1997
DEC-31-1997
PER-BOOK
1,360,294
64,928
288,544
0
55,293
1,769,059
29,017
360,683
(3,721)
385,979
0
0
778,693
142,000
0
0
5,621
0
0
0
456,766
1,769,059
732,010
4,859
629,749
629,749
102,261
(17,715)
84,546
63,218
16,469
0
16,469
22,177
0
56,425
0.61
0.61

Includes: trust originated preferred securities of $60,000, current liabilities, net of current long-term debt maturities and short-term debt, of $176,786 and deferred income taxes and other credits of $219,980.
Includes distributions related to trust originated preferred securities of $5,475 and other expense of $12,240.