

# Analyst Meetings

## New York

### October 14-16, 2015



**SOUTHWEST GAS**



# Safe Harbor Statement



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This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2015 expectations for our construction services and natural gas operations segments.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2014 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

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

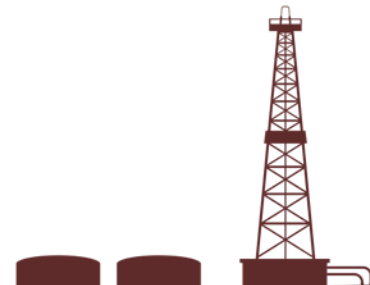
New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ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



# Topical Summary



- I. Who we are
- II. Capital investments
- III. Customer growth and economic growth
- IV. Operating expense efficiencies
- V. Regulation
- VI. Capital structure
- VII. Centuri Construction Group
- VIII. Company dividend policy



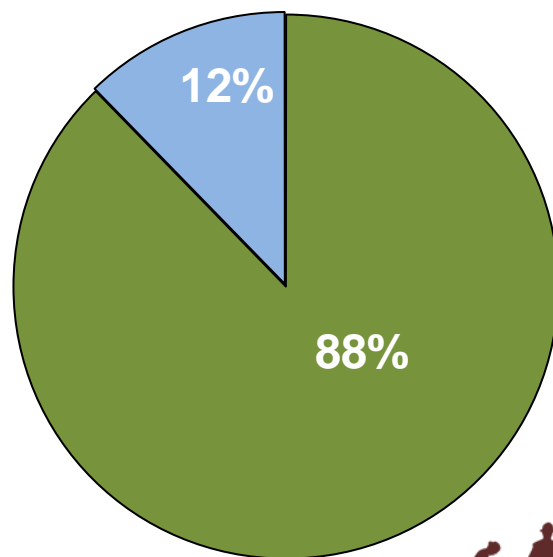
# Two Business Segments



Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

**TMTD 6/30/15 Net Income**  
**\$138MM**



- **Natural gas operations**  
\$121MM net income
- **Construction services**  
\$17MM net income



# 2015 Capital Expenditures

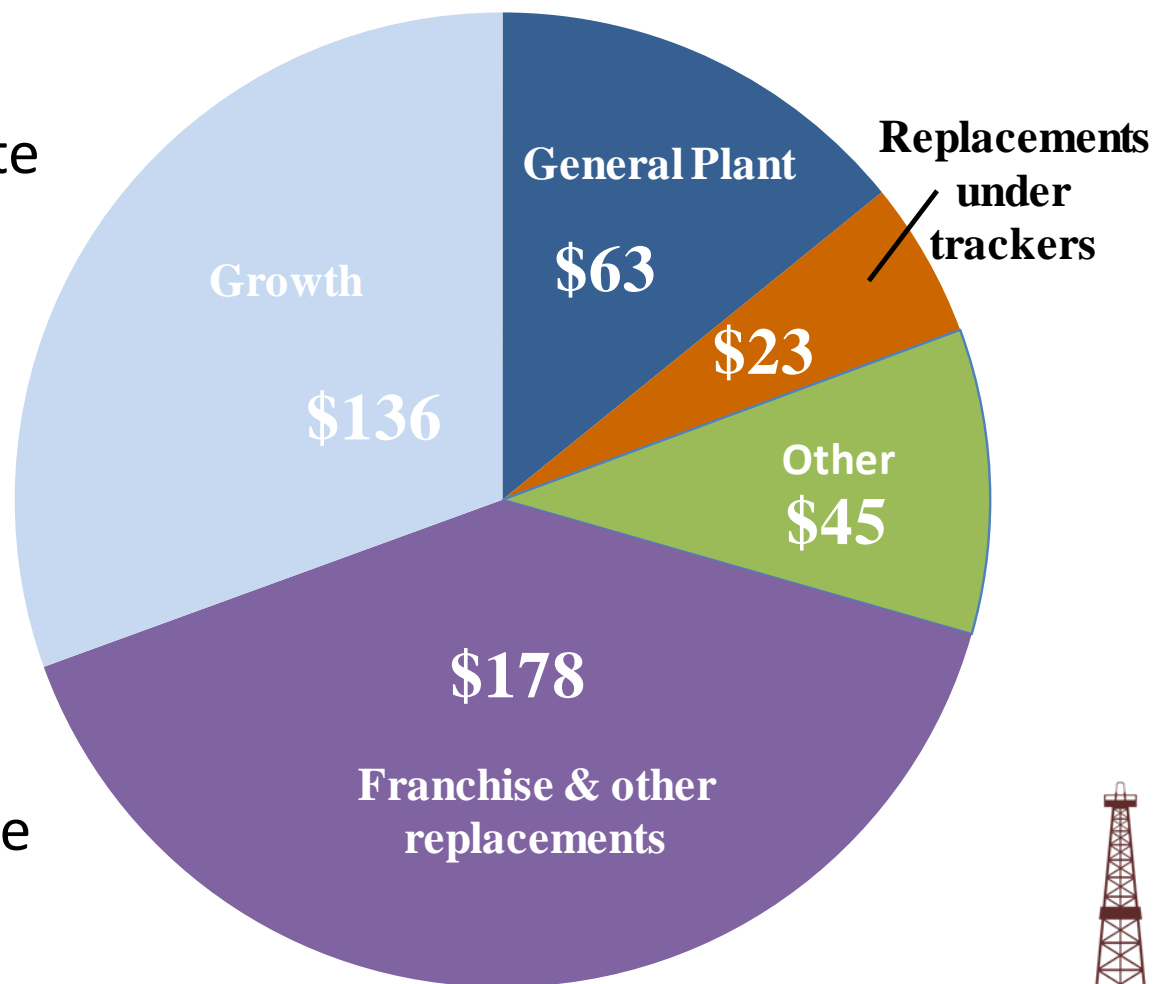
## Natural Gas Operations

(In millions)



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- 2015 total estimate
  - \$445 million



- 2015-2017 estimate
  - \$1.3 billion



# Net Utility Plant – Growth

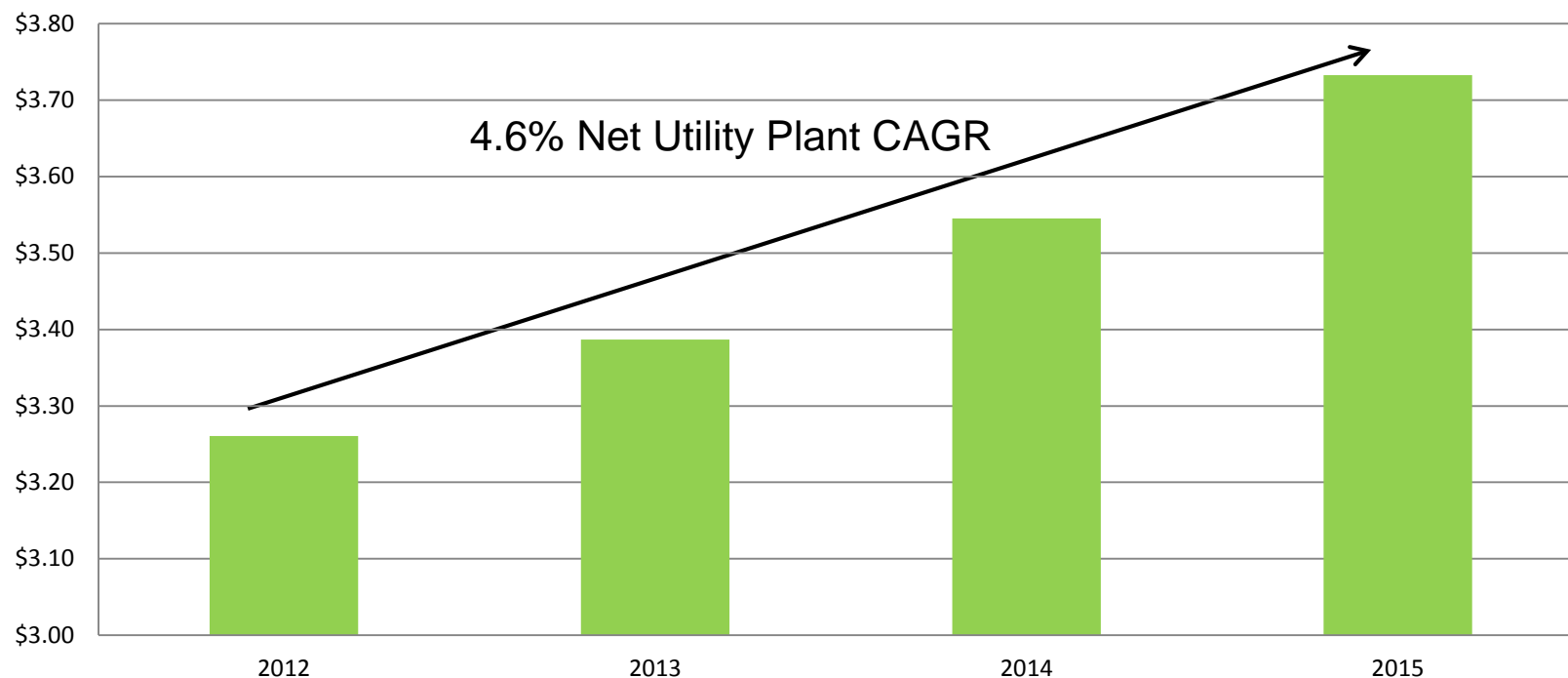
## Natural Gas Operations

(In billions)

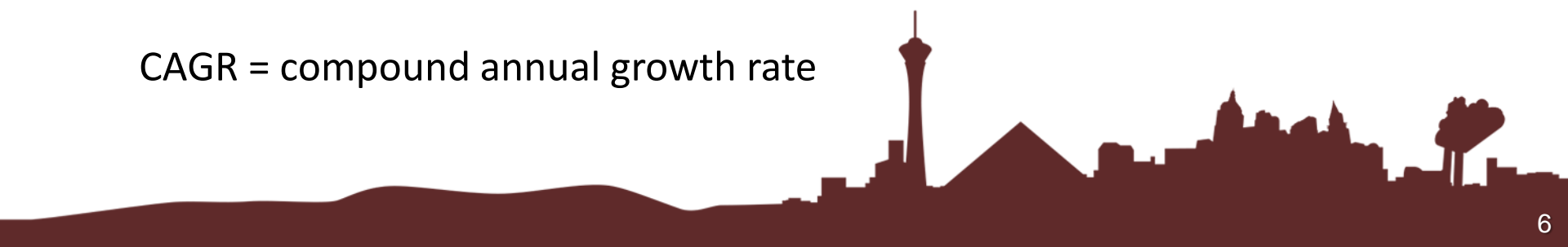


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For Periods Ended June 30



CAGR = compound annual growth rate



# Customer Growth Breakdown

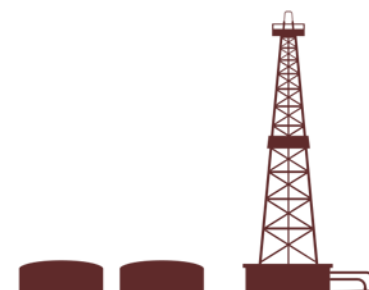


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## Natural Gas Operations

(In thousands)

|                         | Twelve Months Ended June 30, |              |              |
|-------------------------|------------------------------|--------------|--------------|
|                         | 2013                         | 2014         | 2015         |
| Beginning period        | 1,858                        | 1,882        | 1,910        |
| New meter sets          | 20                           | 21           | 22           |
| Meter turn-on/turn-offs | 4                            | 7            | 6            |
| Ending period           | <u>1,882</u>                 | <u>1,910</u> | <u>1,938</u> |



# Economic Growth

Service Area

Natural Gas Operations



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## Unemployment Rate

## Employment Growth

June 2015

June 2014

June 2015

June 2014

**Southern California**

6.5%

8.4%

3.7%

2.8%

**Southern Nevada**

7.0%

7.9%

3.8%

3.1%

**Northern Nevada**

6.9%

7.7%

-0.3%

0.4%

**Southern Arizona**

5.9%

6.9%

-0.1%

1.5%

**Central Arizona**

5.4%

6.5%

2.8%

2.1%





# Operating Expense

## Natural Gas Operations



### Realized Operating Expense Efficiencies

- Employee headcount reductions from 2,423 at December 31, 2009 to 2,188 at June 30, 2015
  - Employee reductions met through attrition
- At June 30, 2015, achieved an 886 to 1 customer-to-employee ratio
- Customer satisfaction rating averaging in the 90th to 95th percentiles
- Overall: We anticipate 2015 operating expense increases to approximate 3-4% (including \$8 million of pension expense)



# Regulation -Authorized Rate Base and Rates of Return



## Natural Gas Operations

| <u>Rate Jurisdiction</u>    | <u>Authorized<br/>Rate Base<br/>(In thousands)</u> | <u>Authorized<br/>Rate of<br/>Return</u> | <u>Authorized<br/>Return on<br/>Common<br/>Equity</u> | <u>Decoupled</u> | <u>Capital<br/>Structure -<br/>% Equity</u> |
|-----------------------------|--|--|---|------------------|---|
| Arizona                     | \$ 1,070,117                                       | 8.95%                                    | 9.50%   | ✓                | 52.3%                                       |
| Southern Nevada             | 825,190  | 6.47%                                    | 10.00%  | ✓                | 42.7%                                       |
| Northern Nevada             | 115,933  | 7.88%                                    | 9.30%   | ✓                | 59.1%                                       |
| Southern California         | 159,277  | 6.83%                                    | 10.10%  | ✓                | 55.0%                                       |
| Northern California         | 67,620   | 8.18%                                    | 10.10%  | ✓                | 55.0%                                       |
| South Lake Tahoe            | 25,389   | 8.18%                                    | 10.10%  | ✓                | 55.0%                                       |
| Paiute Pipeline Company (1) | 87,158   | 8.46%                                    | 11.00%  | ✓                | 51.8%                                       |

(1) Estimated amounts based on rate case settlement.



# Regulation – Attrition and General Rate Case



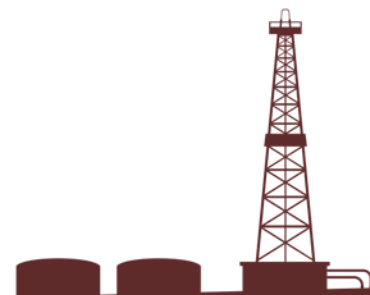
## Natural Gas Operations

### California

- 2.75% attrition margin increases for calendar years 2015 to 2018
  - \$2.5 million attrition margin effective January 2015

### Arizona – Rate case moratorium

- Earliest general rate case application – April 30, 2016
- Earliest test year – November 30, 2015
- Required depreciation study
- New rates earliest effective – May 1, 2017



# Beyond Rate Case Filings – Nevada



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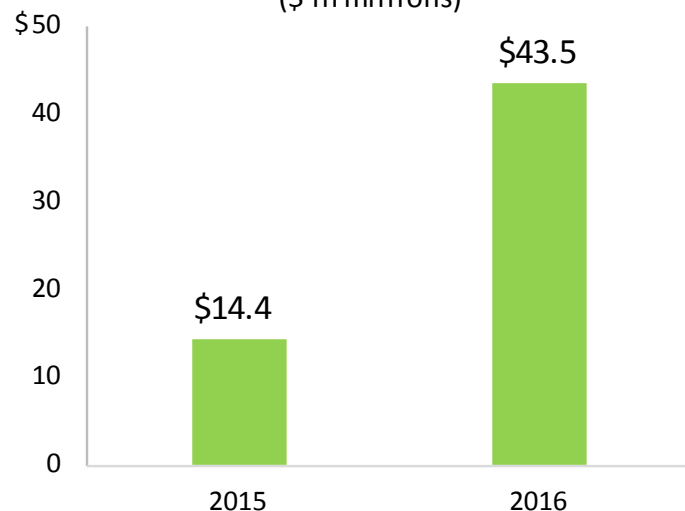
Infrastructure Mechanisms

Natural Gas Operations

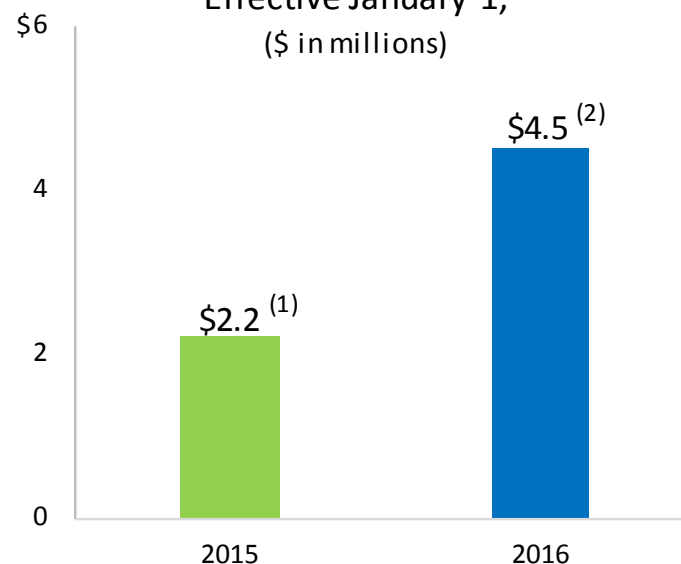
- Gas Infrastructure Replacement (GIR) Mechanism - regulations approved in January 2014

GIR Advance Application  
Capital Expenditures

(\$ in millions)



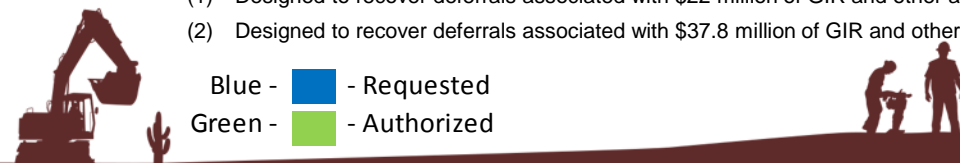
GIR Surcharge  
Effective January 1,  
(\$ in millions)



(1) Designed to recover deferrals associated with \$22 million of GIR and other approved replacement projects through August 31, 2014

(2) Designed to recover deferrals associated with \$37.8 million of GIR and other approved replacement projects through August 31, 2015

Blue - Requested  
Green - Authorized



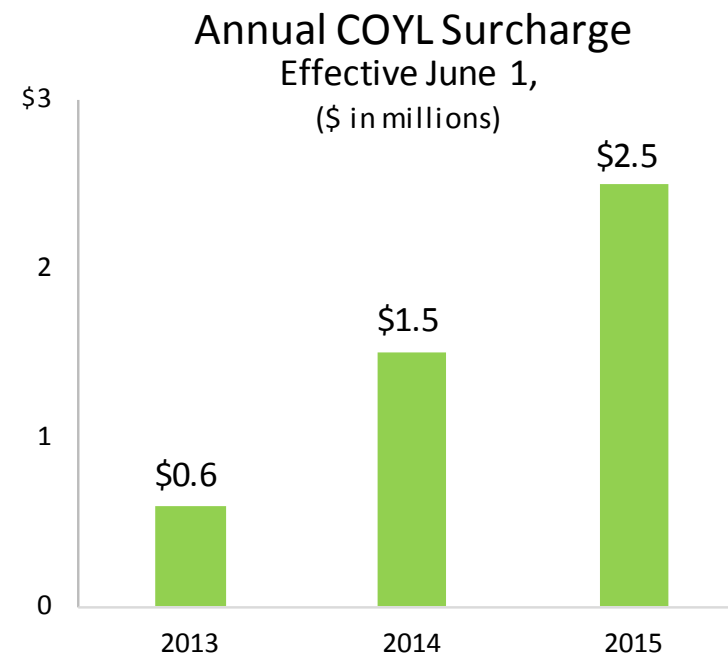
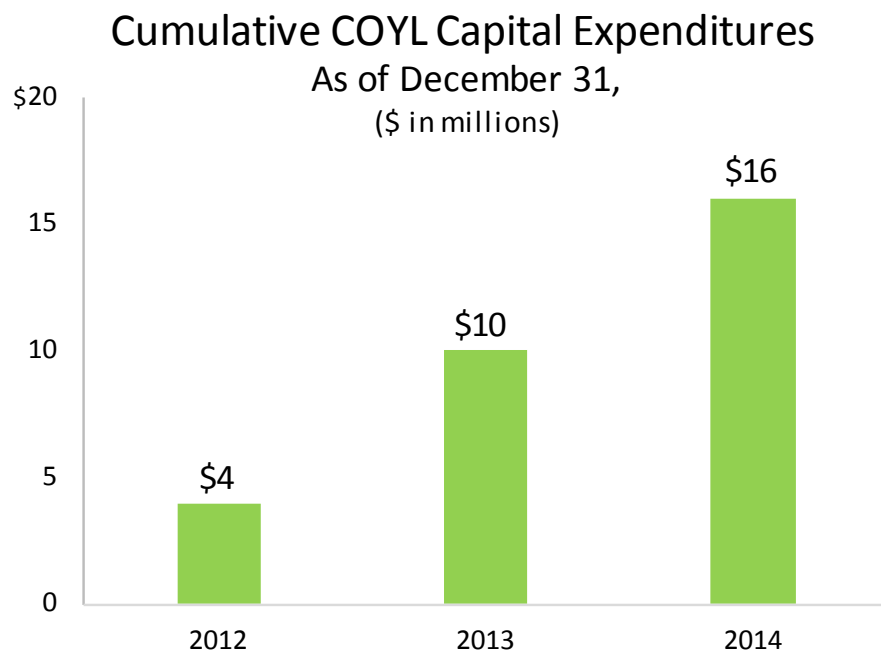
# Beyond Rate Case Filings – Arizona

## Infrastructure Mechanisms – Arizona COYL Program

### Natural Gas Operations



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



Green -  - Authorized





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# Beyond Rate Case Filings

## Expansion/Reliability Projects

### Natural Gas Operations

- Proposed LNG facility
  - Received pre-approval from ACC in December 2014 to build \$55 million facility
  - Expected completion – two to three years
- Paiute Pipeline Company (FERC)
  - \$35 million, 35 mile lateral to interconnect Paiute with Ruby Pipeline and increase gas supply deliverability to Elko
  - FERC approval received in May 2015 and the project is expected to be complete by year end
- Nevada SB 151 – Expansion/Economic Development Legislation
  - Facilitates expansion of natural gas service to unserved or underserved areas in Nevada
  - Draft regulations to Legislative Council Bureau for review
  - Final regulations expected to be approved by PUCN before year end

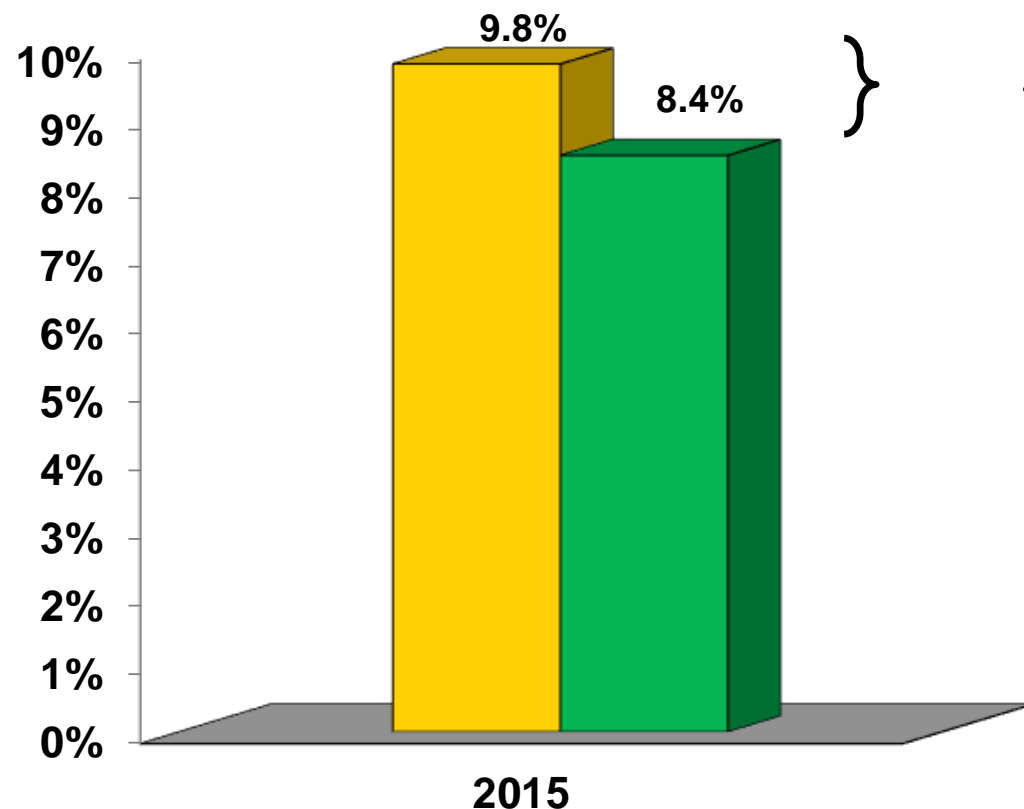


# Return on Common Equity

Twelve months ended June 30,



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■ Return on Common Equity - Authorized Gas Operations

■ Return on Common Equity - Actual Gas Operations

## Impact to Future Earnings:

- Arizona Rate Case
- Infrastructure Mechanisms – Surcharges
  - Arizona
  - Nevada
  - California
- California
  - Attrition
  - Victor Valley project



# Capital Structure

## Consolidated Capital Structure

(In millions)

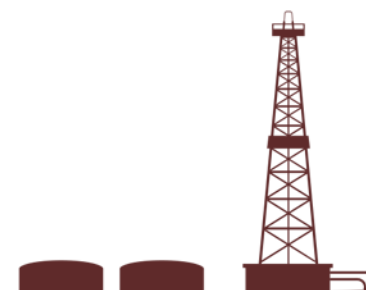


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| Capitalization at June 30,  | 2011            | 2012            | 2013            | 2014            | 2015            |
|-----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Common Equity <sup>1</sup>  | \$ 1,222        | \$ 1,281        | \$ 1,376        | \$ 1,465        | \$ 1,569        |
| Long-Term Debt <sup>2</sup> | 1,142           | 1,222           | 1,268           | 1,390           | 1,542           |
| Total Permanent Capital     | <u>\$ 2,364</u> | <u>\$ 2,503</u> | <u>\$ 2,644</u> | <u>\$ 2,855</u> | <u>\$ 3,111</u> |
|                             |                 |                 |                 |                 |                 |
| Capitalization ratios       |                 |                 |                 |                 |                 |
| Common Equity <sup>1</sup>  | 51.7%           | 51.2%           | 52.1%           | 51.3%           | 50.4%           |
| Long-Term Debt <sup>2</sup> | 48.3%           | 48.8%           | 47.9%           | 48.7%           | 49.6%           |
| Total Permanent Capital     | <u>100.0%</u>   | <u>100.0%</u>   | <u>100.0%</u>   | <u>100.0%</u>   | <u>100.0%</u>   |

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

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





# Capital Structure

## Consolidated Capital Structure



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### Equity

- In March 2015 filed with the SEC an S-3 which became effective upon filing for the offer and sale of up to \$100 million of company stock
- At June 30, 2015 the Company had issued approximately 372,500 shares resulting in proceeds of \$20.6 million

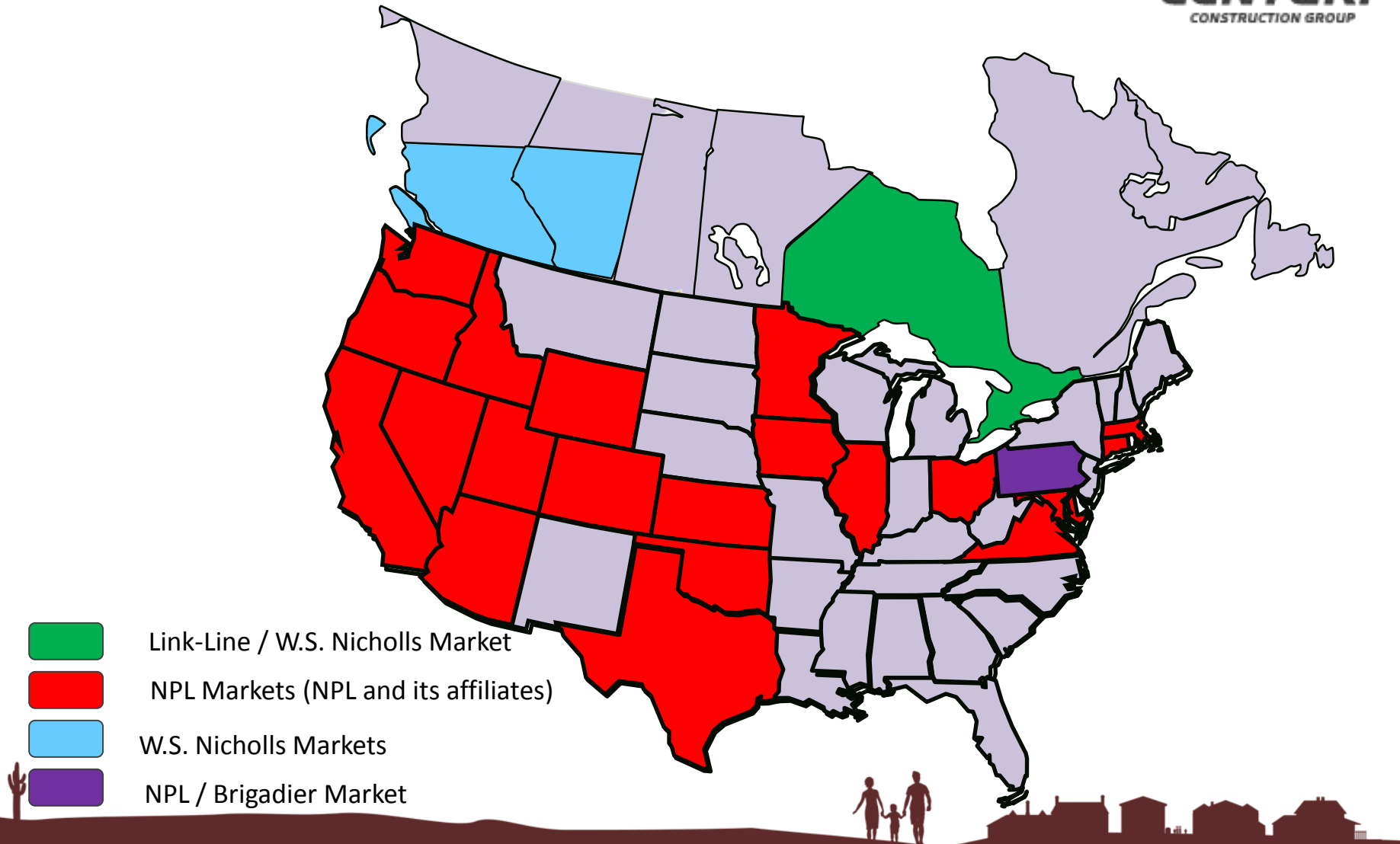
### Debt Called

- \$31.2 million, 5.00% Series 2004 B Clark County, Nevada IDRBs in May 2015
- \$20 million, 5.25% Series 2003 D Clark County, Nevada IDRBs in September 2015



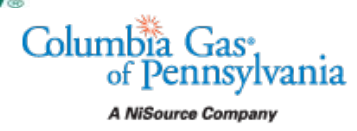
# Centuri Construction Group

## Construction Services



# Centuri Construction Group

## Construction Services



# Centuri Construction Group

## Construction Services



### ➤ Management Changes

- CEO to retire in December 2015
- Nationwide search for new CEO in progress

### ➤ Business Conditions

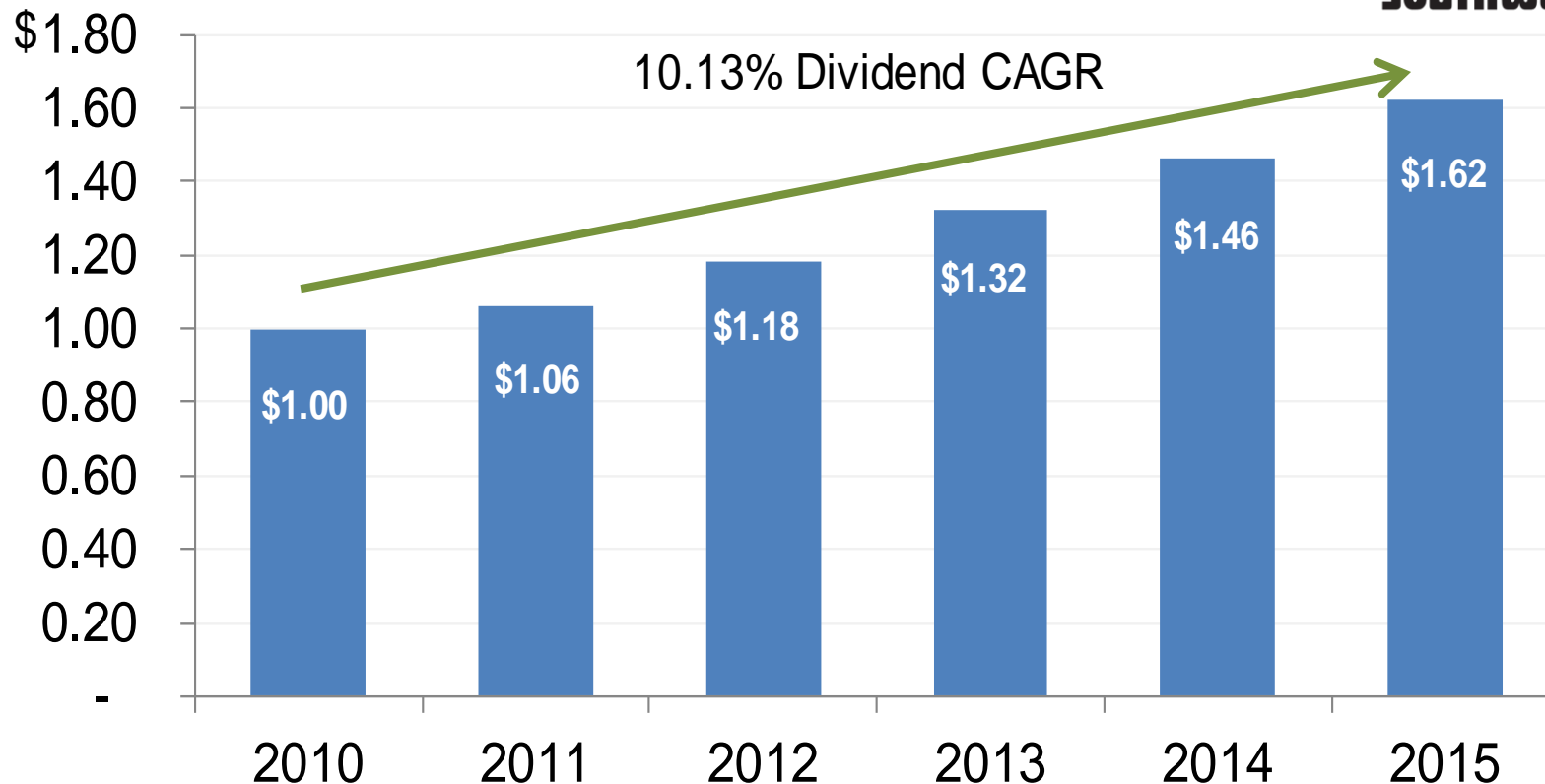
- Emphasis on integration of Link-Line Group of companies acquired in October 2014
- Strong base of utility clients in 22 markets with multi-year pipe replacement programs
- Centuri has a platform that can sustain and grow its business for several years into the future



# Annualized Dividend Growth



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CAGR = compound annual growth rate

February 2015, Board increased annual dividend \$0.16

