

2016 First Quarter Earnings Conference Call May 9, 2016



SOUTHWEST GAS





Safe Harbor Statement

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

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

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

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



2016 Highlights

Consolidated

- Dividend increase for tenth straight year (11%)
- Holding company applications approved by three state commissions

Natural Gas Operations

- Added 26,000 net new customers over the past twelve months
- Paiute Pipeline Elko County Expansion Project (Adobe Lateral) placed in service
- Continued progress of infrastructure replacement mechanisms (NV and AZ)
- Filed general rate case application in Arizona

Construction Services

- Revenues increased \$25 million, or 14%, compared to prior year quarter
- Link Line renamed NPL Canada
- Hired new CEO – Paul Daily



Call Outline

- I. Consolidated earnings – March 31, 2016
- II. Natural gas segment earnings
- III. Centuri Construction Group earnings
- IV. Regulation
- V. Customer Growth
- VI. Capital expenditures
- VII. 2016 outlook update



Summary Operating Results

(In thousands, except per share amounts)

	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	2016	2015	2016	2015
Results of Consolidated Operations				
Gas operations income	\$ 77,583	\$ 78,921	\$ 110,287	\$ 123,194
Construction services income (loss)	(2,137)	(6,938)	31,493	19,132
Net income	<u>\$ 75,446</u>	<u>\$ 71,983</u>	<u>\$ 141,780</u>	<u>\$ 142,326</u>
Basic earnings per share	<u>\$ 1.59</u>	<u>\$ 1.54</u>	<u>\$ 3.00</u>	<u>\$ 3.06</u>
Diluted earnings per share	<u>\$ 1.58</u>	<u>\$ 1.53</u>	<u>\$ 2.98</u>	<u>\$ 3.03</u>
Average shares outstanding	47,437	46,612	47,196	46,537
Average shares outstanding (assuming dilution)	47,763	47,036	47,562	46,986



Summary Operating Results

Natural Gas Operations

(In thousands)

THREE MONTHS ENDED MARCH 31,

2016

2015

Results of Natural Gas Operations

Gas operating revenues	\$ 525,100	\$ 553,115
Net cost of gas sold	213,600	253,762
Operating margin	311,500	299,353
Operations and maintenance expense	100,797	95,510
Depreciation and amortization	60,745	53,675
Taxes other than income taxes	14,013	12,997
Operating income	135,945	137,171
Other income (deductions)	1,755	2,602
Net interest deductions	16,230	16,096
Income before income taxes	121,470	123,677
Income tax expense	43,887	44,756
Contribution to net income - gas operations	\$ 77,583	\$ 78,921



Three Months Ended March 31, 2016

Increase in Operating Margin

Natural Gas Operations

(In millions)

Rate relief (CA, Paiute)	\$	3
Customer growth		3
Conservation and energy efficiency (NV)		4
Other		2
Increase	\$	12



Three Months Ended March 31, 2016

Operating Expenses and Net Financing Costs

Natural Gas Operations

Operating expenses increased by \$13 million

- O&M expense increased 6%
 - General cost increases, partially offset by a decline in pension costs
 - Pipeline integrity management programs impacted current quarter expenses
 - Full year cost increases expected to be modest
- Depreciation and general taxes increased 12%
 - 6% growth in average gas plant in service and higher amortization of regulatory assets



Summary Operating Results

Natural Gas Operations

(In thousands)

TWELVE MONTHS ENDED MARCH 31,
2016 2015

Results of Natural Gas Operations

Gas operating revenues	\$ 1,426,624	\$ 1,448,709
Net cost of gas sold	523,647	567,741
Operating margin	902,977	880,968
Operations and maintenance expense	398,486	376,834
Depreciation and amortization	220,525	206,336
Taxes other than income taxes	50,409	48,793
Operating income	233,557	249,005
Other income (deductions)	1,445	8,155
Net interest deductions	64,229	67,168
Income before income taxes	170,773	189,992
Income tax expense	60,486	66,798
Contribution to net income - gas operations	<u>\$ 110,287</u>	<u>\$ 123,194</u>



Twelve Months Ended March 31, 2016

Natural Gas Operations

- Operating income decreased \$15.4 million between periods due to an increase in operating expense
 - Operating margin increased \$22 million including combined rate relief of \$6 million in the California jurisdiction and Paiute Pipeline Company
 - Operations and maintenance expense increased \$21.7 million primarily due to general cost increases, higher employee-related expenses, and greater legal expenses. System maintenance and integrity costs increased \$4.7 million
 - Depreciation and amortization expense increased \$14.2 million primarily due to an increase in average gas plant in service of \$281 million and an additional \$6 million of amortization costs related to the recovery of regulatory assets
- Net interest costs decreased \$2.9 million primarily due to redemptions of Industrial Development Revenue Bonds



Summary Operating Results

Construction Services

(In thousands)

	THREE MONTHS ENDED MARCH 31,	
	2016	2015
Construction revenues	\$ 206,148	\$ 181,105
Construction expenses	193,382	174,928
Depreciation and amortization	14,615	13,792
Operating income (loss)	(1,849)	(7,615)
Other income (deductions)	(34)	(330)
Net interest deductions	1,491	1,881
Income taxes	(1,146)	(2,784)
Noncontrolling interests	(91)	(104)
Net loss	\$ (2,137)	\$ (6,938)



Three Months Ended March 31, 2016

Construction Services

- Revenues increased \$25 million
 - Incremental work was completed as a result of favorable weather conditions
 - Additional pipe replacement work

- Construction expenses increased \$18.5 million
 - Net change mitigated by the \$5.6 million loss recorded in 2015 on a Canadian project
 - Additional pipe replacement work, as noted above



Summary Operating Results

Construction Services

(In thousands)

	<u>TWELVE MONTHS ENDED MARCH 31,</u>	
	<u>2016</u>	<u>2015</u>
Construction revenues	\$ 1,034,029	\$ 798,822
Construction expenses	917,235	709,586
Depreciation and amortization	<u>57,479</u>	<u>51,267</u>
Operating income	59,315	37,969
Other income (deductions)	883	(388)
Net interest deductions	7,394	5,359
Income taxes	20,185	13,086
Noncontrolling interests	1,126	4
Net income	<u><u>\$ 31,493</u></u>	<u><u>\$ 19,132</u></u>



Twelve Months Ended March 31, 2016

Construction Services

- Revenues increased \$235.2 million
 - Additional pipe replacement work
 - \$72.5 million due to acquired companies
 - Favorable weather conditions during the first quarter of 2016 and the fourth quarter of 2015
 - Construction expenses increased \$207.6 million primarily due to additional pipe replacement work and construction costs associated with the acquired companies
 - General & Administrative expense increased \$11.7 million
 - Prior period included \$5.6 million loss reserve on industrial project in Canada
- Depreciation expense increased \$6.2 million
 - Amortization of finite-lived intangible assets recognized from acquisition
 - Incremental depreciation from the acquired companies, and increased depreciation for additional equipment purchased



Regulation Key Highlights

Natural Gas Operations

- **General rate cases**
 - Arizona general rate case
 - California 2016 post-test year attrition filing
- **Infrastructure recovery mechanisms**
 - Arizona COYL program
 - Nevada GIR mechanism
- **Expansion projects**
 - Paiute Pipeline Company - Elko County expansion project (Adobe Lateral)
 - Nevada SB 151 - Expansion/Economic Development Legislation
- **Other regulatory proceedings**
 - Holding Company Reorganization



Regulation – General Rate Cases

Arizona General Rate Case

Natural Gas Operations

End of rate case moratorium: Filed May 2016

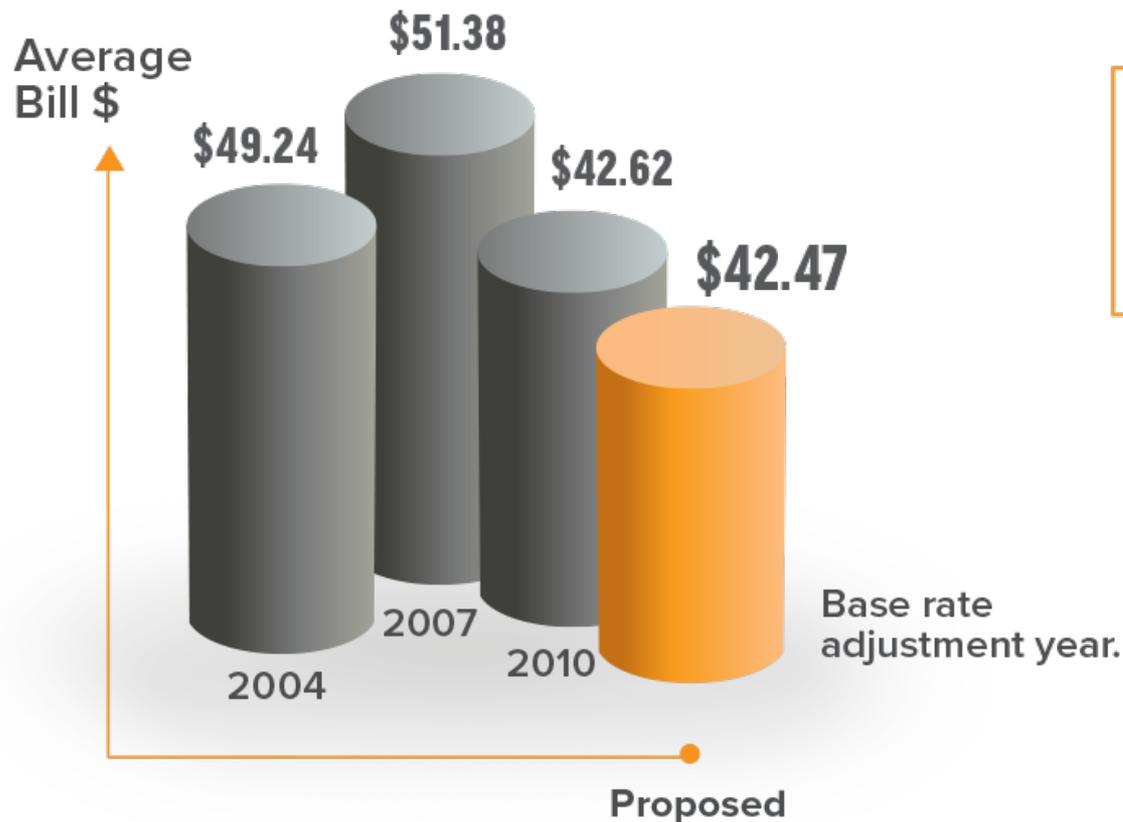
	Southwest Gas Requested
Rate Relief	\$32 Million
Depreciation study	(\$42 Million)
Rate Base	\$1.3 Billion
ROE	10.25%
Capital Structure - Equity	52%
Rate Design	Continuation of Decoupling Mechanism Gas Infrastructure Modernization Mechanism Property Tax Tracker
Estimated Effective Date	May 2017



Regulation – General Rate Cases

Arizona General Rate Case

Natural Gas Operations



Proposed bill **lower** than average bill in the past 3 rate cases.



Regulation – General Rate Cases

California Annual Attrition and Implementation Plan

Natural Gas Operations

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



Regulation – Infrastructure Recovery Mechanisms

Natural Gas Operations

Arizona customer-owned yard line (COYL) program

- May 2015 ACC approved surcharge revenue of \$2.5 million effective June 2015 based upon cumulative capital expenditures of \$16 million
- May 2016 ACC approved surcharge revenue of \$3.7 million effective June 2016 based upon cumulative capital expenditures of \$23.1 million

Nevada gas infrastructure replacement (GIR) mechanism

- 2014 PUCN authorized \$14.4 million replacement work for 2015
- 2015 PUCN authorized \$43.5 million replacement work for 2016
- December 2015 PUCN approved surcharge revenue of approximately \$4 million effective January 2016 based upon deferrals of \$38 million



Regulation – Expansion Projects

Natural Gas Operations

- **Proposed LNG facility**
 - Received pre-approval from ACC in December 2014 to build \$55 million facility
 - Purchased site for facility in October 2015
 - Contract to construct is expected to be in place in second half of 2016, with construction expected to take two to three years

- **Paiute Pipeline Company (FERC)**
 - \$35 million, 35 mile lateral to interconnect Paiute with Ruby Pipeline and increase gas supply deliverability to Elko
 - FERC approval received in May 2015, construction began in the second quarter of 2015, project completed and placed in service in January 2016
 - Rates to recover project were implemented in January 2016 and will result in incremental revenue of approximately \$6 million

- **Nevada SB 151 – Expansion/Economic Development Legislation**
 - Facilitates expansion of natural gas service to unserved or underserved areas in Nevada
 - Final regulations approved by PUCN in January 2016



Regulation – Other Regulatory Proceedings

Natural Gas Operations

Holding Company Reorganization

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



Customer Growth Breakdown

Natural Gas Operations

(In thousands)

	Twelve Months Ended March 31,		
	2014	2015	2016
Beginning period	1,886	1,912	1,938
New meter sets	21	21	24
Meter turn-on/turn-offs	5	5	2
Ending period	<u>1,912</u>	<u>1,938</u>	<u>1,964</u>

- For 2016, Company is projecting net customer growth of about 1.5%
 - Slowly improving economic conditions provide organic growth opportunities



Economic Overview – Service Area

Natural Gas Operations

	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>March 2015</u>	<u>March 2016</u>	<u>March 2015</u>	<u>March 2016</u>
Southern California	6.5%	5.8%	4.2%	3.4%
Southern Nevada	7.2%	6.0%	2.9%	2.7%
Northern Nevada	7.3%	6.3%	-0.1%	2.3%
Southern Arizona	5.4%	4.7%	1.6%	3.1%
Central Arizona	5.3%	4.5%	3.0%	3.7%

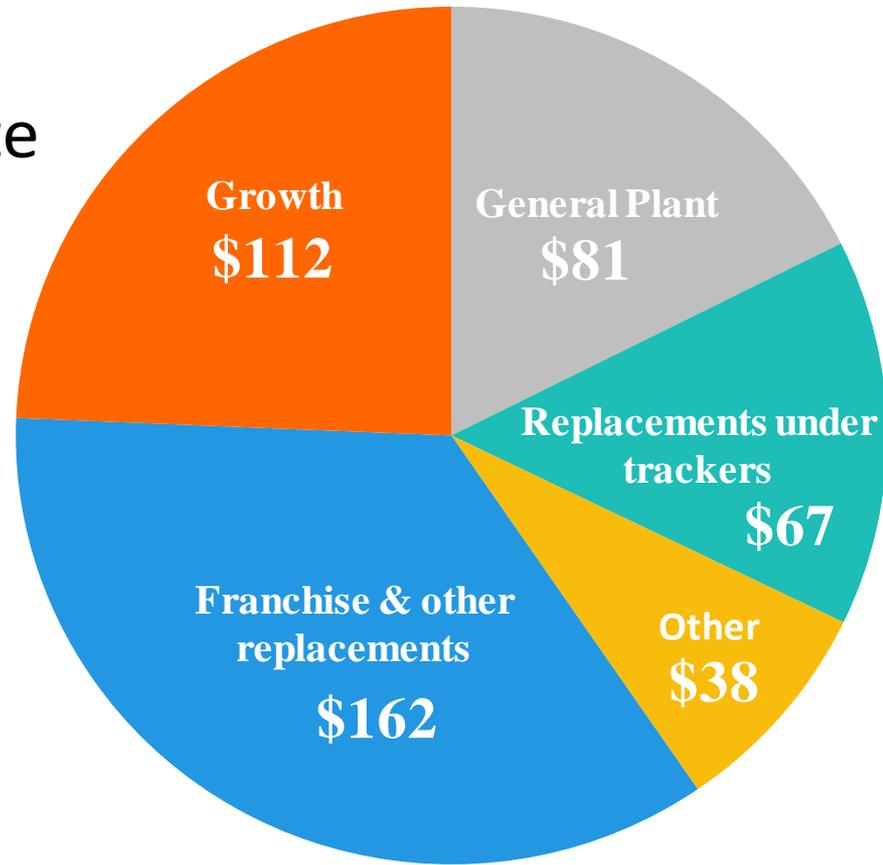


2016 Capital Expenditures

Natural Gas Operations

(In millions)

- 2016 total estimate
 - \$460 million



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



2016 Expectations

Natural Gas Operations

- Operating margin increase of nearly 3% via combination of customer growth (similar to 2015), infrastructure recovery mechanisms, expansion projects, and California attrition
 - Additionally, new rates related to recovery of NV conservation programs to increase margin by nearly \$11 million, offset by similar amortization expense increase
- O&M expense expected to increase modestly
 - Higher general and incremental costs largely offset by pension cost decrease
- Depreciation and general taxes increase consistent with gas plant growth plus impact of NV conservation programs noted above
- Operating income to increase by 4% to 5%
- Average normal annual COLI returns of \$3 million – \$5 million
 - Continue to be subject to volatility, evidenced by swing over last two years
- Net interest deductions for 2016 increase of \$5 million – \$7 million due to capital expenditure financing requirements



2016 Expectations

Construction Services

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



APPENDIX



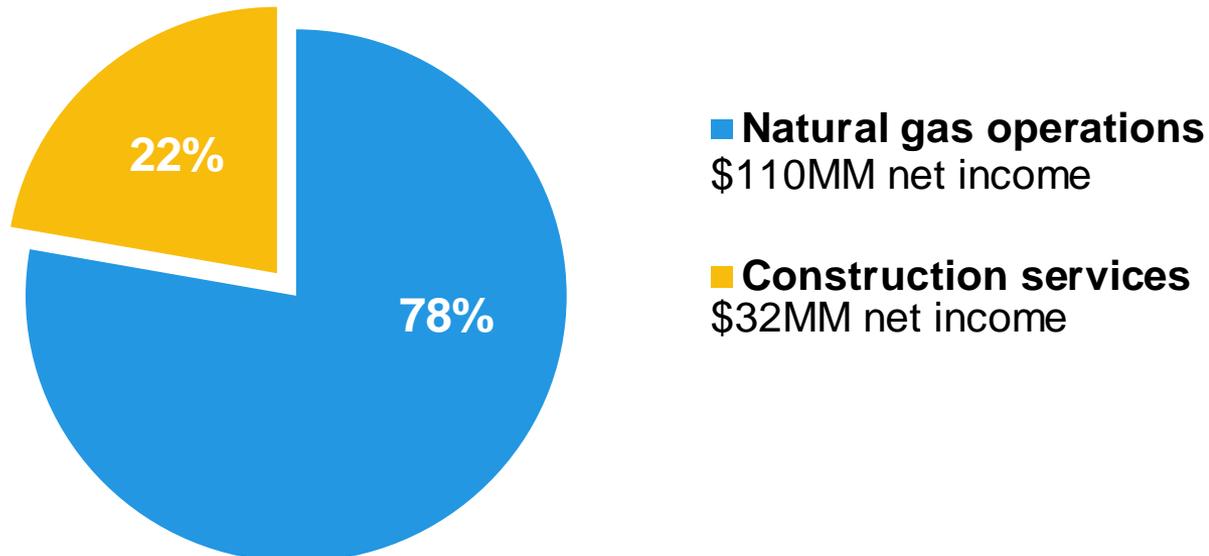


Two Business Segments

Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

**TMTD 3/31/16 Net Income
\$142MM**





Southwest Gas is a Regional Leader in Natural Gas Distribution

Headquartered in Las Vegas

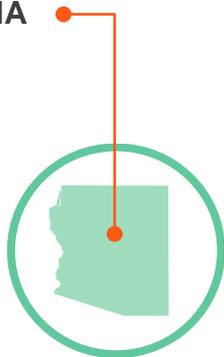
Largest distributor of natural gas in Arizona and Nevada

Distributes and transports natural gas in parts of California

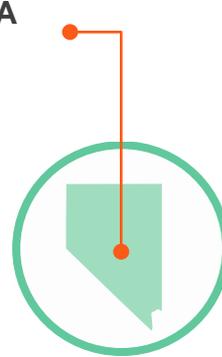
1,964,000 customers in service territory at 3/31/2016

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

ARIZONA



NEVADA



CALIFORNIA





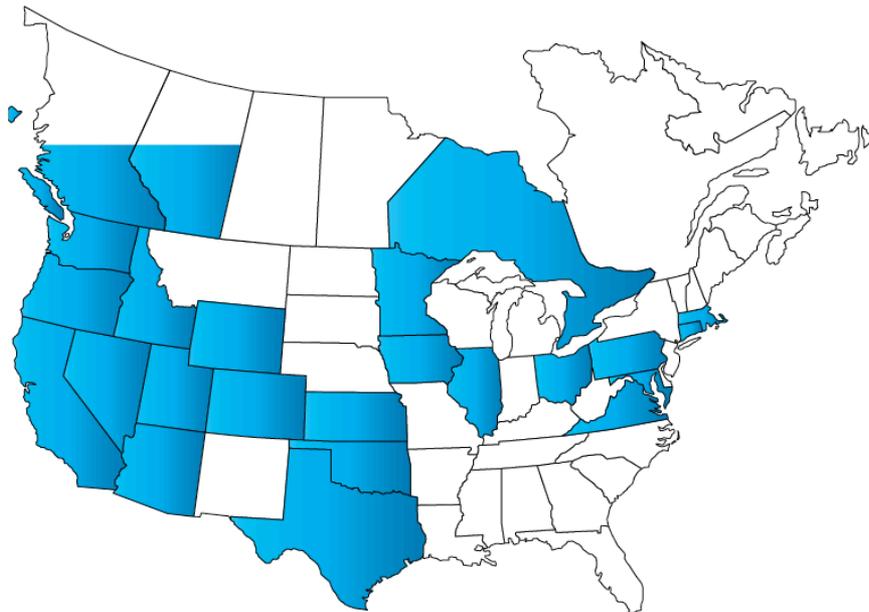
Centuri Construction Group

Construction Services – Markets

Headquartered in Phoenix

Operates in 22 markets across U.S. and Canada

One of North America's largest full-service underground pipeline contractors





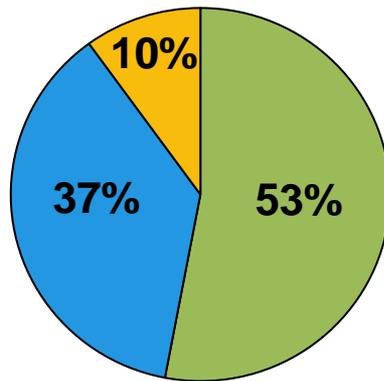
Stable Customer Base

Natural Gas Operations

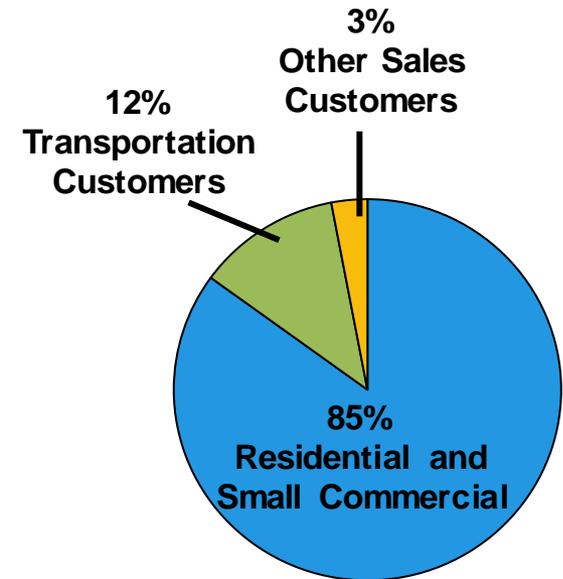
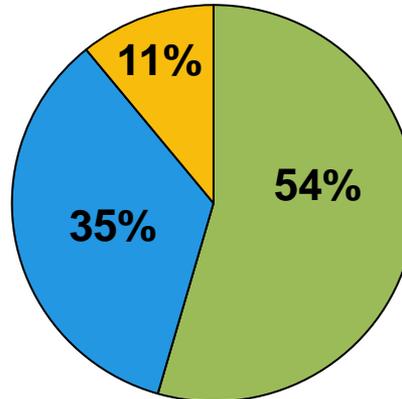
TMTD March 31, 2016 Customer & Operating Margin Distribution

By State

Customers



Margin



➤ Consistent trends year over year

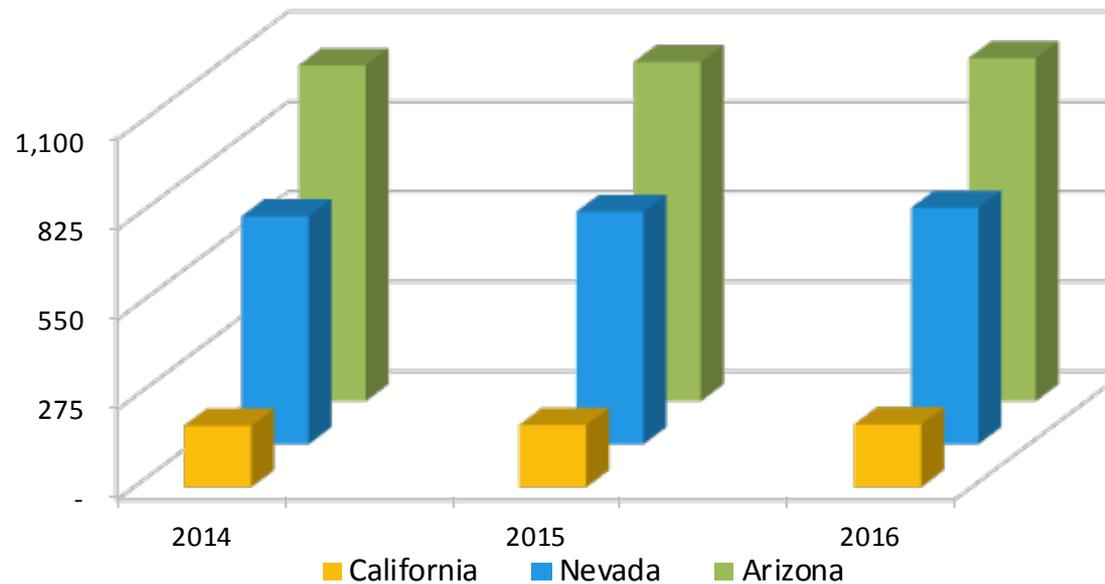


Customers by State

Natural Gas Operations

As of March 31,

	2014	2015	2016
Arizona	1,027	1,037	1,049
Nevada	697	711	723
California	188	190	192
Total	1,912	1,938	1,964

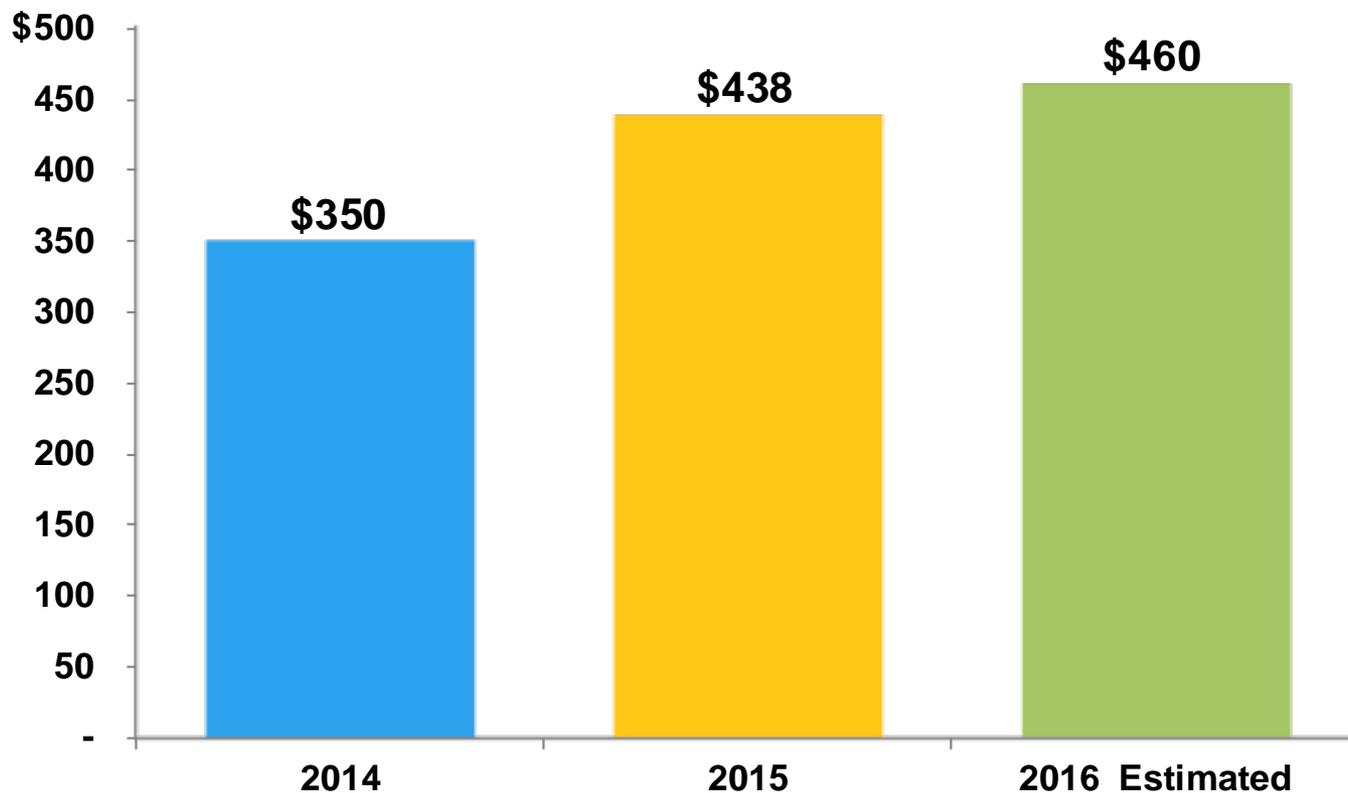




Capital Expenditures

Natural Gas Operations

(In millions)



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



Purchased Gas Adjustment (PGA) Balances

Natural Gas Operations (In millions)

	March 31, 2016	December 31, 2015	March 31, 2015
Arizona	\$ (24.7)	\$ (3.5)	\$ 25.1
Northern Nevada	(12.6)	(2.3)	0.2
Southern Nevada	(63.4)	(39.8)	(0.4)
California	(0.3)	3.6	3.2
Total Receivable/(Payable)	<u>\$ (101.0)</u>	<u>\$ (42.0)</u>	<u>\$ 28.1</u>



Authorized Rate Base and Rates of Return

Natural Gas Operations

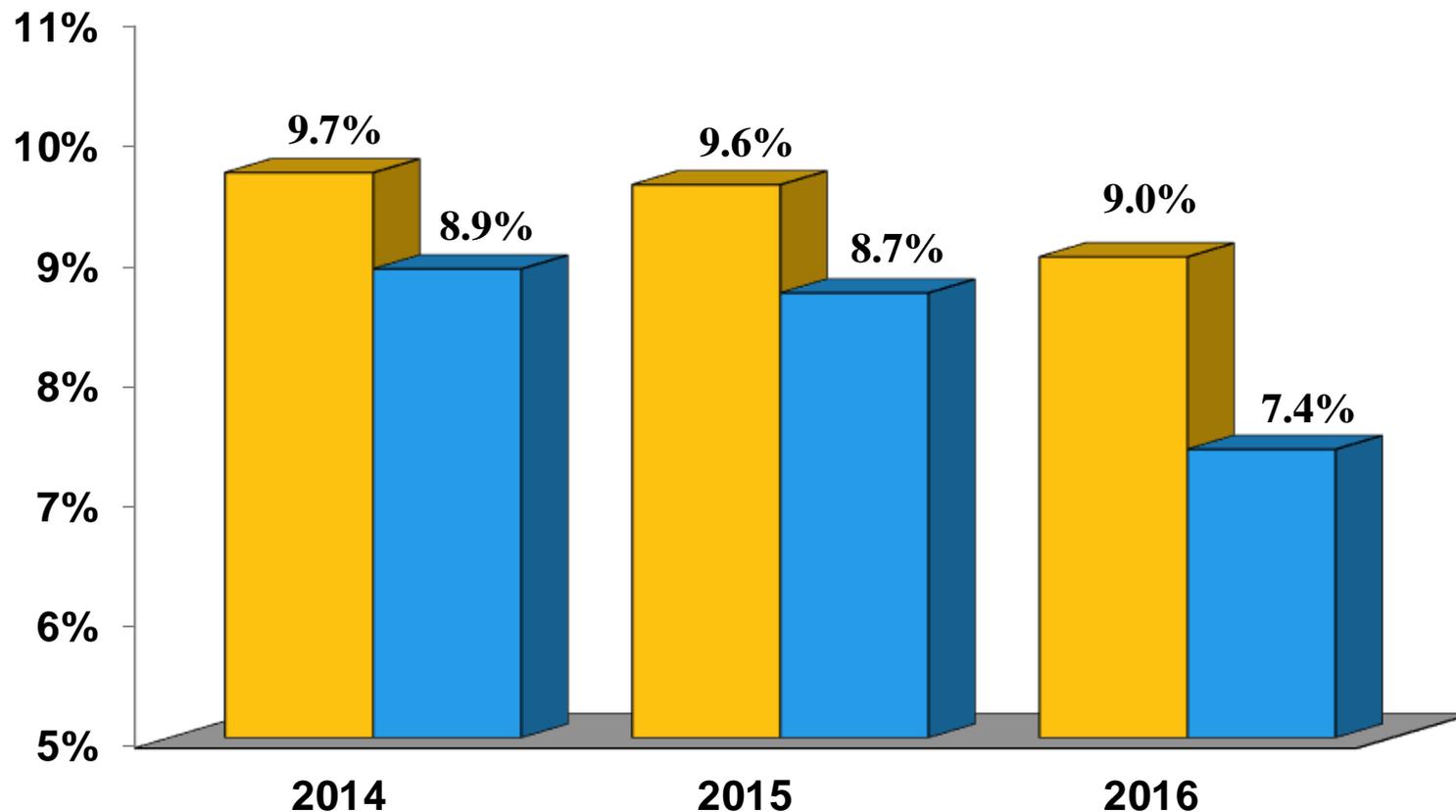
<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity</u>
Arizona	\$ 1,070,117	8.95 %	9.50 %
Southern Nevada	825,190	6.46	10.00
Northern Nevada	115,933	7.88	9.30
Southern California	159,277	6.83	10.10
Northern California	67,620	8.18	10.10
South Lake Tahoe	25,389	8.18	10.10
Paiute Pipeline Company (1)	87,158	8.46	11.00

(1) Estimated amounts based on rate case settlement.



Return on Common Equity

Twelve months ended March 31,



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



Consolidated Capital Structure

(In millions)

Capitalization at March 31,	2012	2013	2014	2015	2016
Equity ¹	\$ 1,295	\$ 1,379	\$ 1,470	\$ 1,571	\$ 1,666
Long-Term Debt ²	1,393	1,256	1,380	1,525	1,438
Total Permanent Capital	\$ 2,688	\$ 2,635	\$ 2,850	\$ 3,096	\$ 3,104
Capitalization ratios					
Equity ¹	48.2%	52.3%	51.6%	50.7%	53.7%
Long-Term Debt ²	51.8%	47.7%	48.4%	49.3%	46.3%
Total Permanent Capital	100.0%	100.0%	100.0%	100.0%	100.0%

¹Includes redeemable noncontrolling interest

²Includes current maturities of long-term debt



Investment Grade

Strong liquidity will support capital expenditure and working capital needs

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

Strong investment-grade credit ratings

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

Capital Structure

As of March 31, 2016



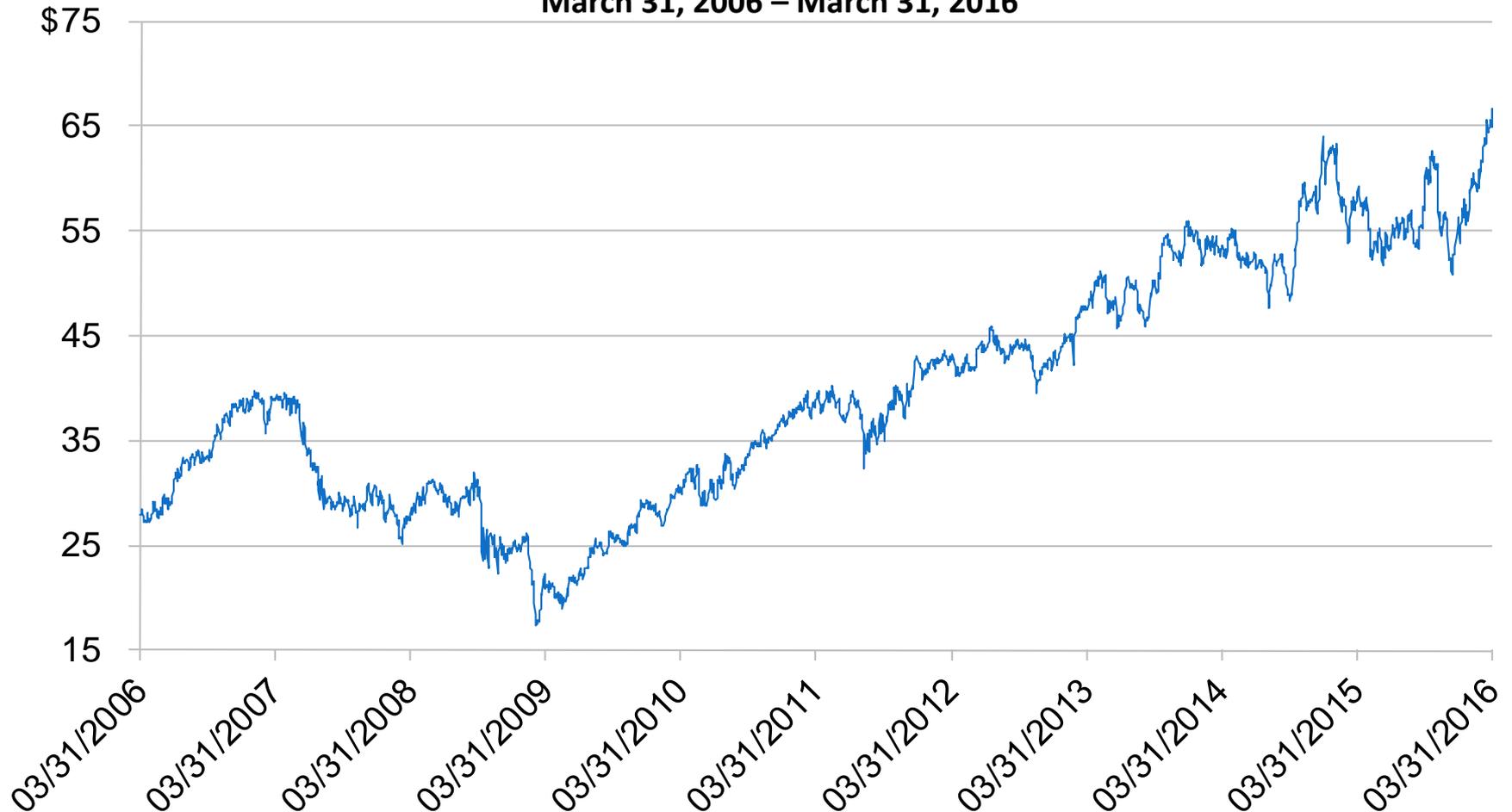
■ Equity 54%

■ Long-term debt 46%



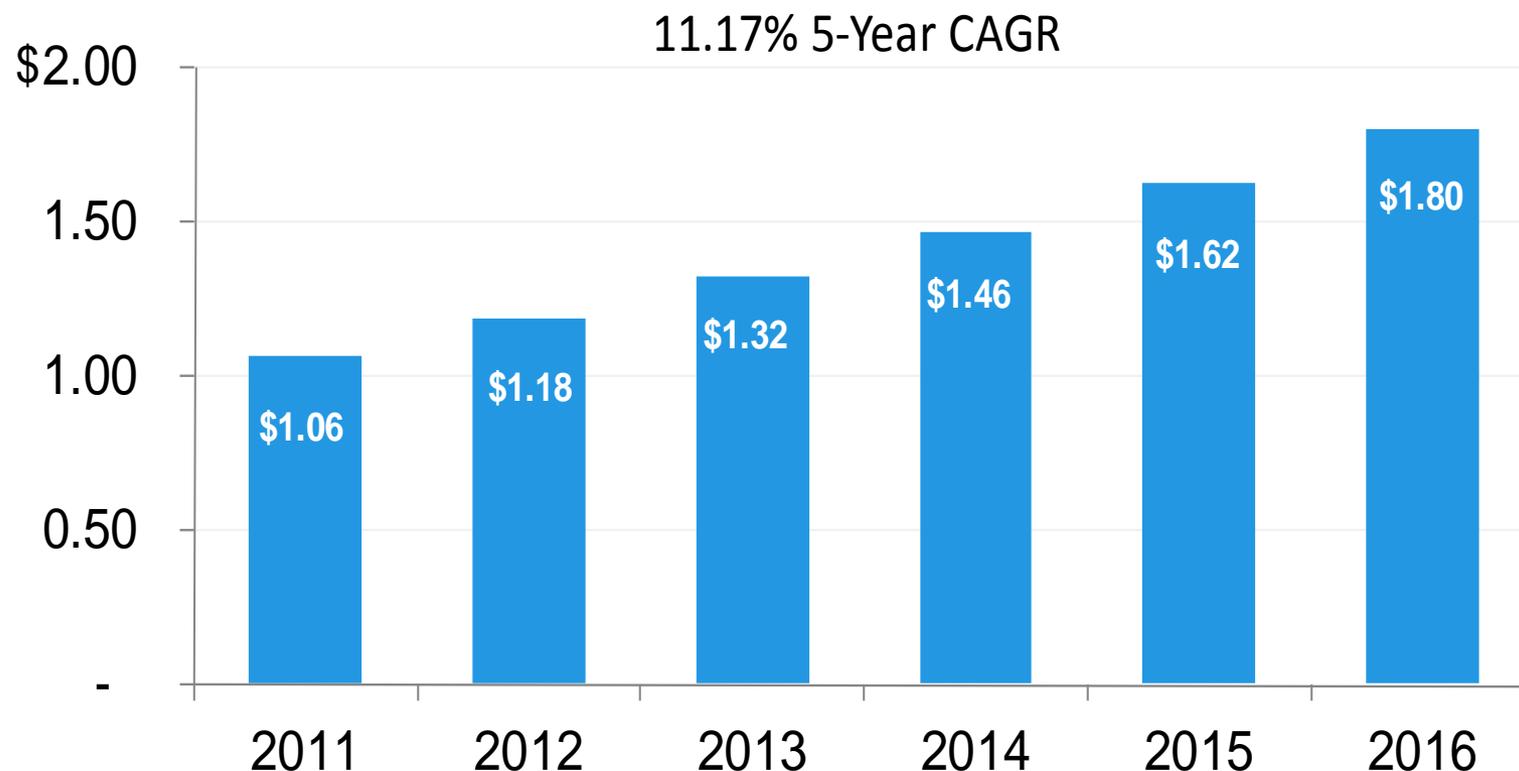
Stock Performance

NYSE: SWX
Common Stock Closing Price
March 31, 2006 – March 31, 2016





Annualized Dividend Growth



CAGR = compound annual growth rate

February 2016, Board increased annual dividend \$0.18



Comparative Total Returns

Total Returns for Periods Ended March 31, 2016

	1-Year	3-Year	5-Year	10-Year
Southwest Gas	16.43%	14.56%	14.09%	12.16%
S&P 600 Small Gas Index	29.35%	17.43%	13.20%	12.55%
Dow Jones Utilities	18.07%	13.66%	14.45%	9.73%
S&P 500 Index	1.77%	11.77%	11.54%	7.00%

Total Return = Price appreciation plus gross dividends reinvested