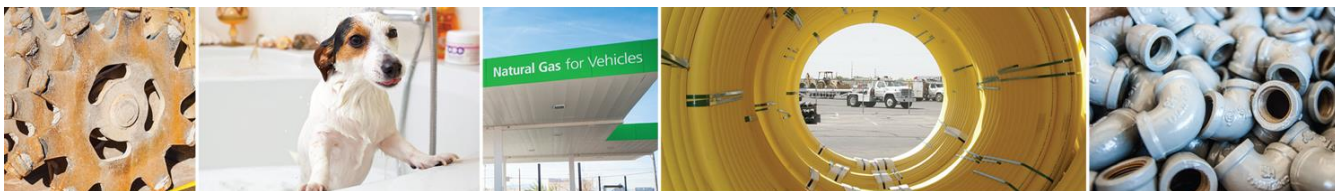


# Rating Agencies and Analyst Meetings

## New York

### October 5-7, 2016





# Safe Harbor Statement

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

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

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

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



# Topical Summary

- I. Company Business Segments
- II. Capital investments
- III. Customer growth and economic growth
- IV. Holding Company
- V. Regulation
- VI. Capital structure
- VII. Centuri Construction Group
- VIII. Company dividend policy

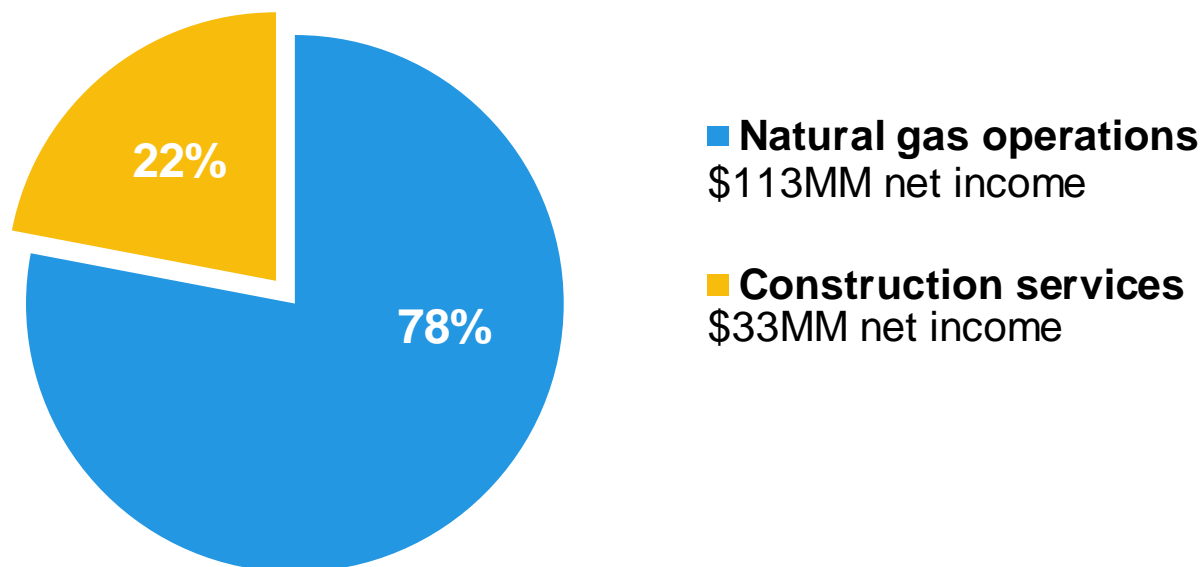


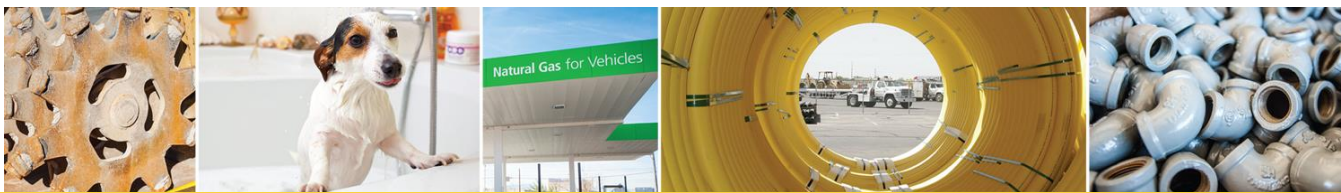
# Two Business Segments

Southwest Gas consists of two business segments

- Natural gas operations
- Construction services (Centuri)

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





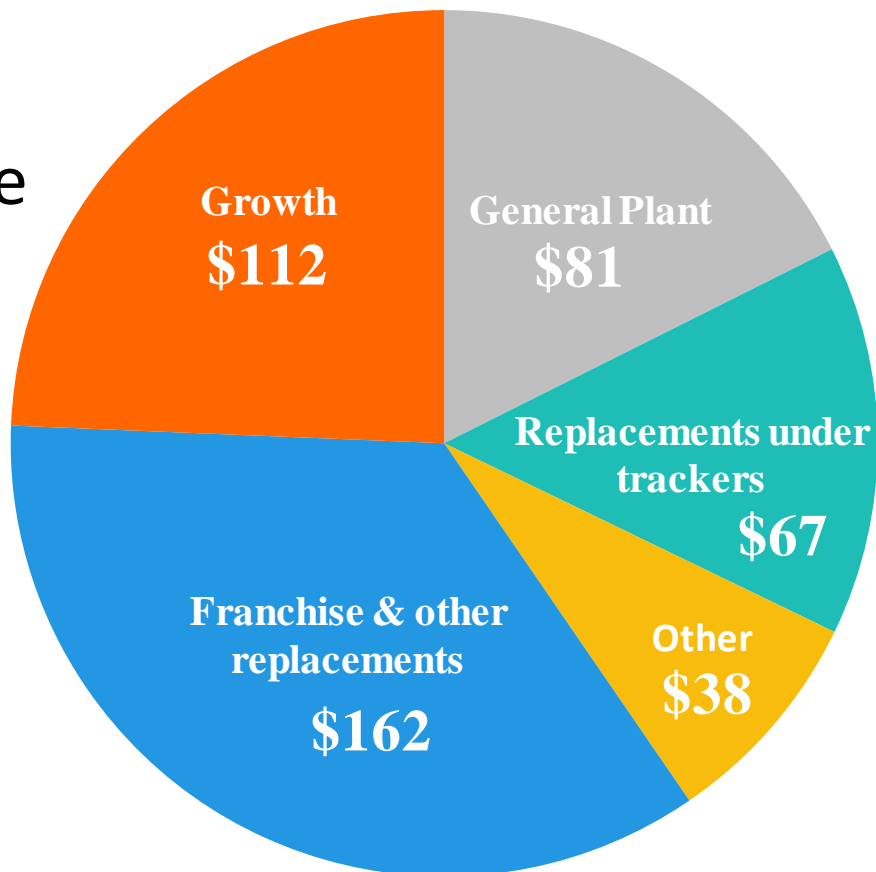
**SOUTHWEST GAS**

# 2016 Capital Expenditures

## Natural Gas Operations

(In millions)

- 2016 total estimate
  - \$460 million



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



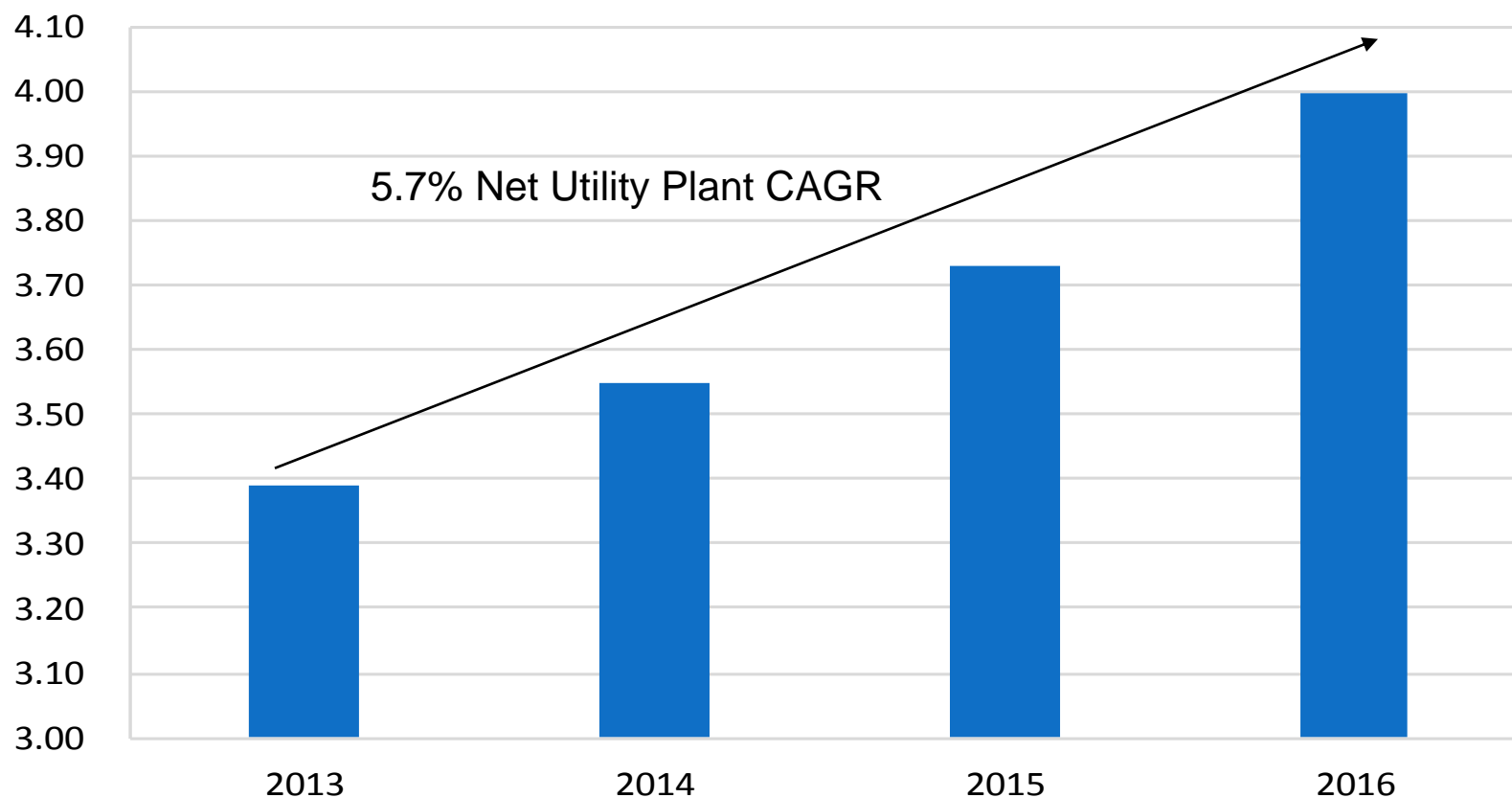


# Net Utility Plant – Growth

## Natural Gas Operations

(In billions)

**For Periods Ended June 30**



CAGR = compound annual growth rate

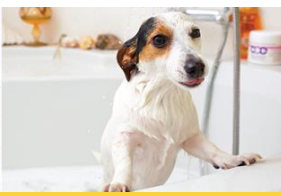
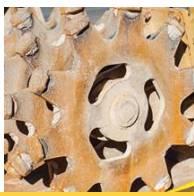


# Customer Growth Breakdown

## Natural Gas Operations

(In thousands)

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



# Economic Overview

## Service Area

## Natural Gas Operations

	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>June 2015</u>	<u>June 2016</u>	<u>June 2015</u>	<u>June 2016</u>
<b>Southern California <sup>1</sup></b>	6.5%	6.6%	3.7%	3.3%
<b>Southern Nevada <sup>2</sup></b>	7.0%	6.9%	3.8%	2.9%
<b>Northern Nevada <sup>3</sup></b>	6.9%	6.7%	-0.3%	-0.3%
<b>Southern Arizona <sup>4</sup></b>	5.9%	5.8%	-0.1%	3.5%
<b>Central Arizona <sup>4</sup></b>	5.4%	5.4%	2.8%	3.6%

<sup>1</sup> [Source: State of California Employment Development Department, California Labor Market Review, <http://www.labormarketinfo.edd.ca.gov>]

<sup>2</sup> [Source: Nevada Department of Employment, Training and Rehabilitation (DETR), Economy In Brief, <http://nevadaworkforce.com>]

<sup>3</sup> [Source: Nevada DETR, Data Search: Total Employment (Carson City, Churchill, Douglas, Elko, Humboldt, Lyon, and Pershing Counties, <http://nevadaworkforce.com>]

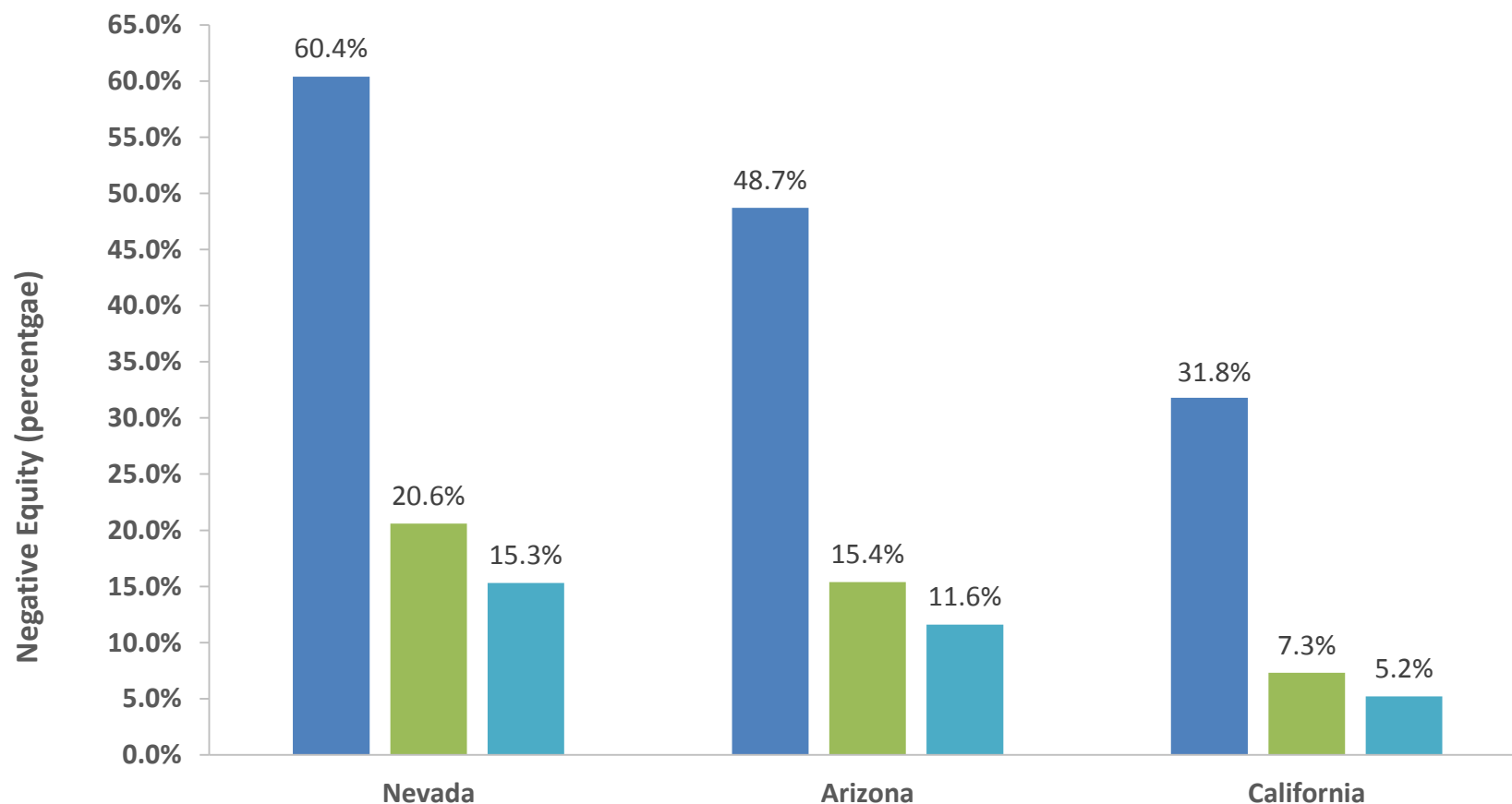
<sup>4</sup> [Source: Arizona Office of Employment & Population Statistics, Employment Report, <https://laborstats.az.gov/>]





# Negative Equity Mortgages

## Second Quarter 2011, 2015 & 2016



Source: CoreLogic



# Holding Company Reorganization - Update

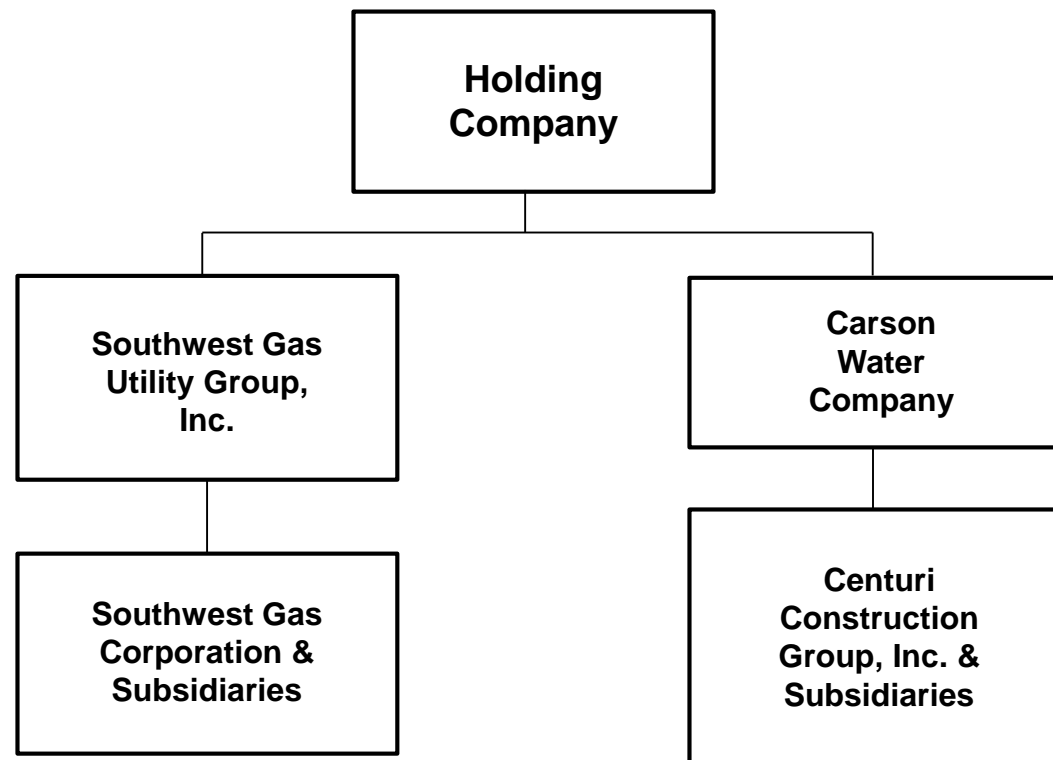
## Holding Company Reorganization

- In October 2015, filed regulatory applications with the three state commissions (ACC, CPUC and PUCN) for approval to reorganize as a holding company
  - Received approval from the CPUC in January 2016, PUCN in March 2016 and the ACC in May 2016
- The reorganization is designed to provide further legal separation between the regulated and unregulated businesses and provide additional financing flexibility
  - Remains subject to consents from various third parties and final Board approval
  - Subject to such conditions, the reorganization is anticipated to become effective in January 2017



# Holding Company Reorganization – Update

## Proposed Structure





# Authorized Rate Base and Rates of Return

## Natural Gas Operations

<u>Rate Jurisdiction</u>	<u>Commission</u>	<u>Authorized Rate Base (In thousands)</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity</u>	<u>Decoupled</u>	<u>Authorized Common Equity Ratio</u>
Arizona	ACC	\$ 1,070,117	8.95 %	9.50 %	✓	52.30 %
Southern Nevada	PUCN	825,190	6.46	10.00	✓	42.74
Northern Nevada	PUCN	115,933	7.88	9.30	✓	59.06
Southern California	CPUC	159,277	6.83	10.10	✓	55.00
Northern California	CPUC	67,620	8.18	10.10	✓	55.00
South Lake Tahoe	CPUC	25,389	8.18	10.10	✓	55.00
Paiute Pipeline Company <sup>1</sup>	FERC	87,158	8.46	11.00	✓	51.75

<sup>1</sup> Estimated amounts based on rate case settlement.

ACC – Arizona Corporation Commission  
PUCN - Public Utilities Commission of Nevada  
CPUC - California Public Utilities Commission  
FERC - Federal Energy Regulatory Commission



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# Regulation – General Rate Cases

Arizona General Rate Case

Natural Gas Operations

End of rate case moratorium: Filed May 2016

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



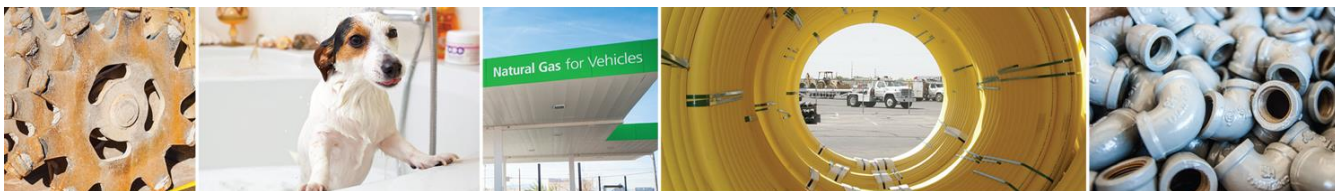


# Regulation – General Rate Cases

## Arizona General Rate Case

## Natural Gas Operations

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

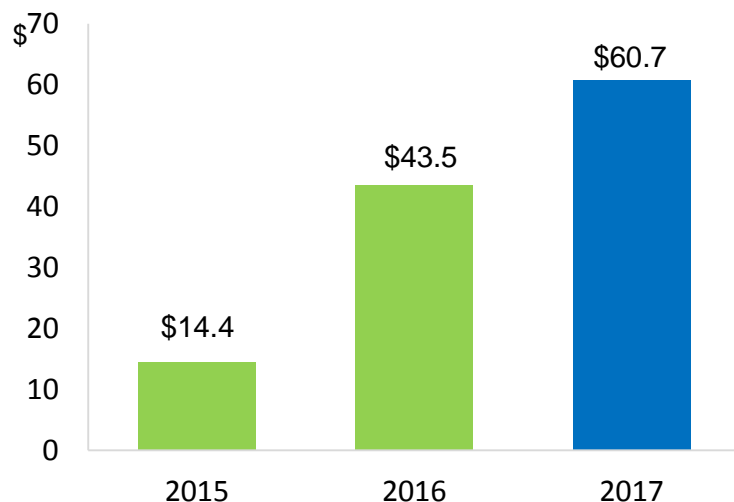


# Regulation—Infrastructure Recovery Mechanisms

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

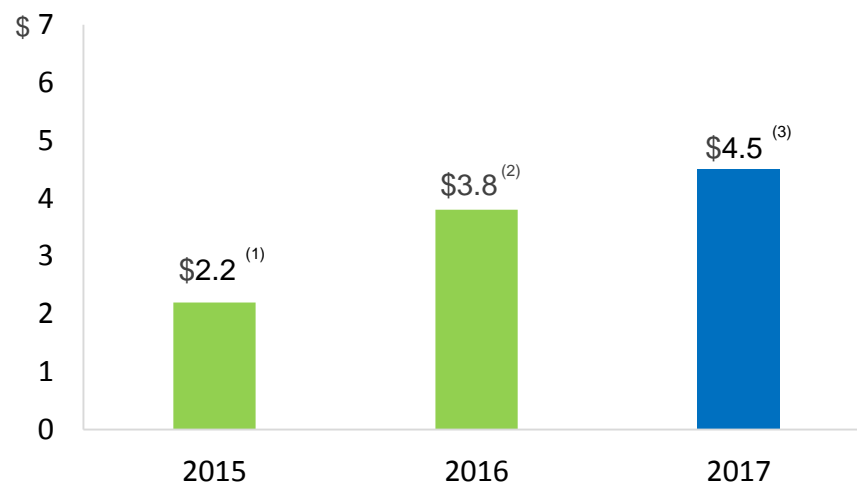
## GIR Advance Application

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
- (3) Designed to recover deferrals associated with \$76.2 million of GIR and other approved replacement projects through August 31, 2016

Blue - Requested/Estimated

Green - Authorized

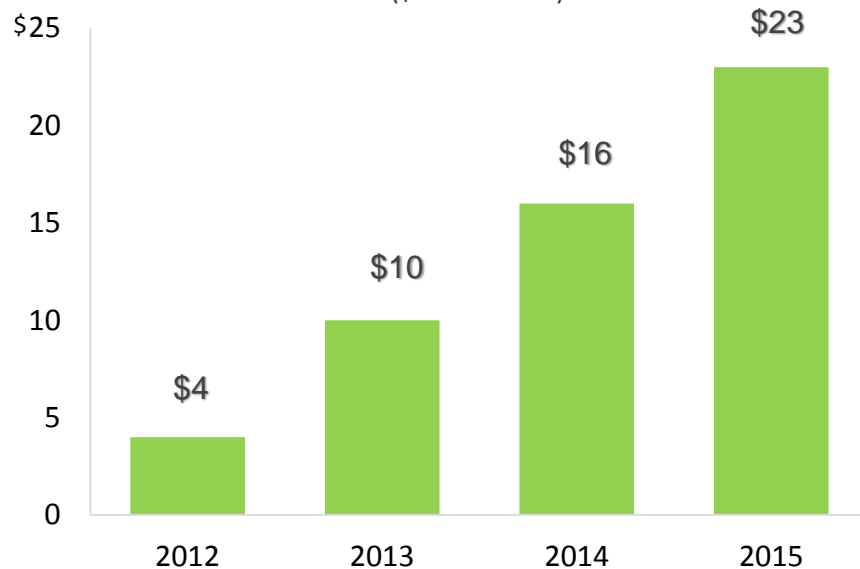


# Regulation–Infrastructure Recovery Mechanisms

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

Cumulative COYL Capital Expenditures

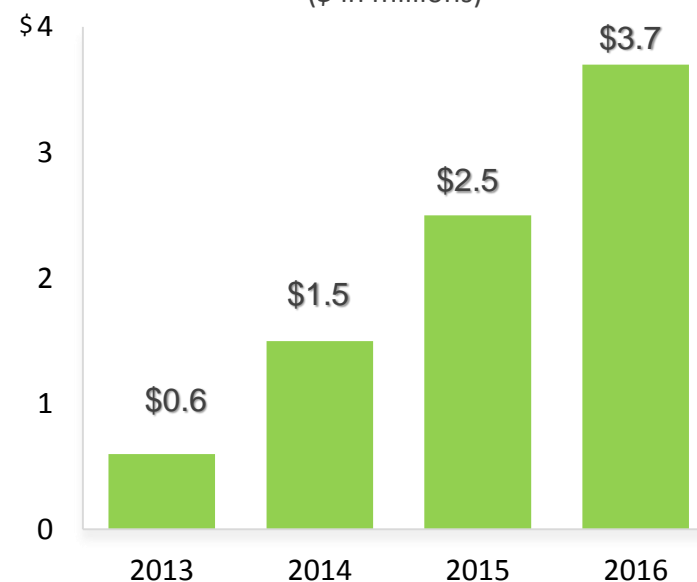
As of December 31  
(\$ in millions)

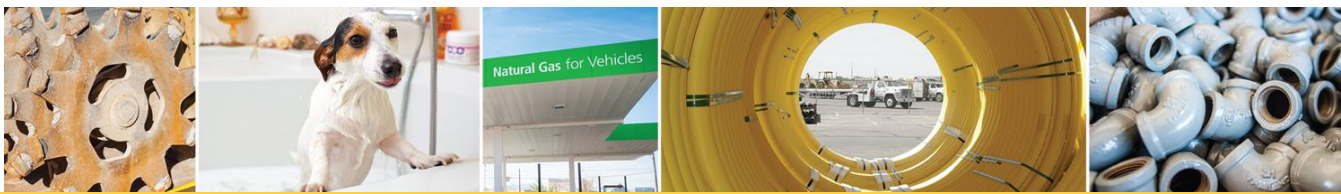


Green -  - Authorized

Annual COYL Surcharge

Effective June 1  
(\$ in millions)





# Regulation – Expansion Projects

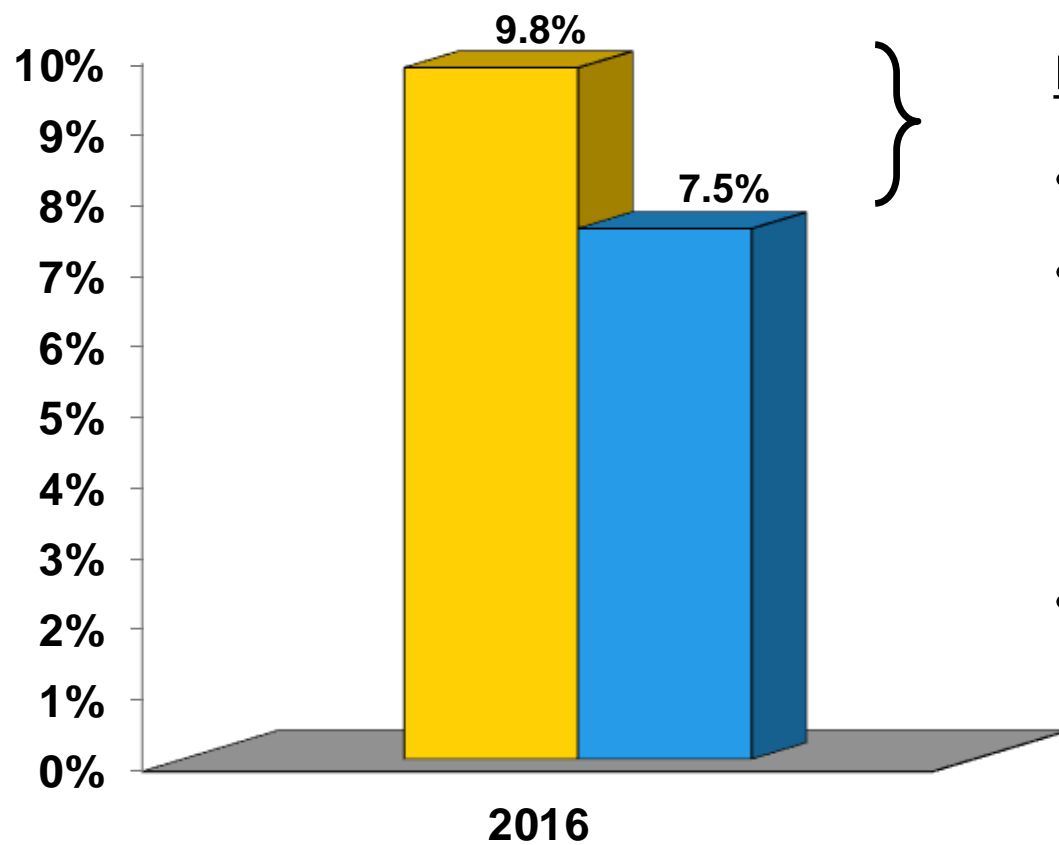
## Natural Gas Operations

- **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 cost of project were implemented in January 2016 and are expected to 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
  - Company identifying projects to extend service based on regulations



# Return on Common Equity

Twelve months ended June 30,



## Impact to Future Earnings:

- Arizona Rate Case
- Infrastructure Mechanisms – Surcharges
  - Arizona
  - Nevada
  - California
- California
  - Attrition

■ Return on Common Equity - Authorized Gas Operations

■ Return on Common Equity - Actual Gas Operations





# Investment Grade Credit Ratings

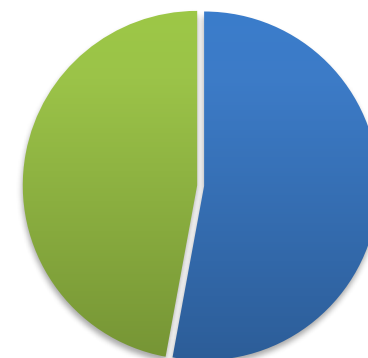
## Strong liquidity will support capital expenditure and working capital needs

- Stable operating cash flows
- \$300 million revolving credit facility
  - Matures in March 2021
  - Facility size is adequate
- Uncommitted commercial paper program

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

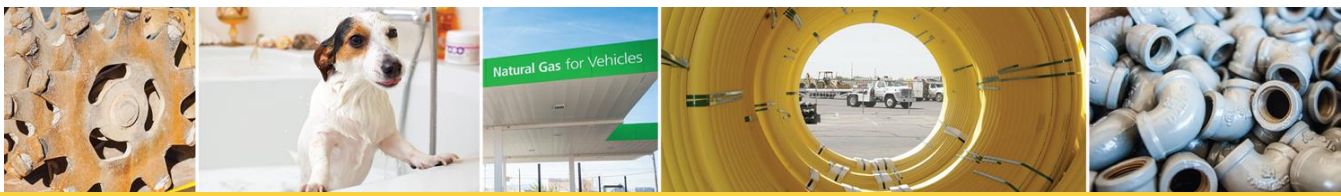
## Capital Structure

As of June 30, 2016



■ Equity 53%

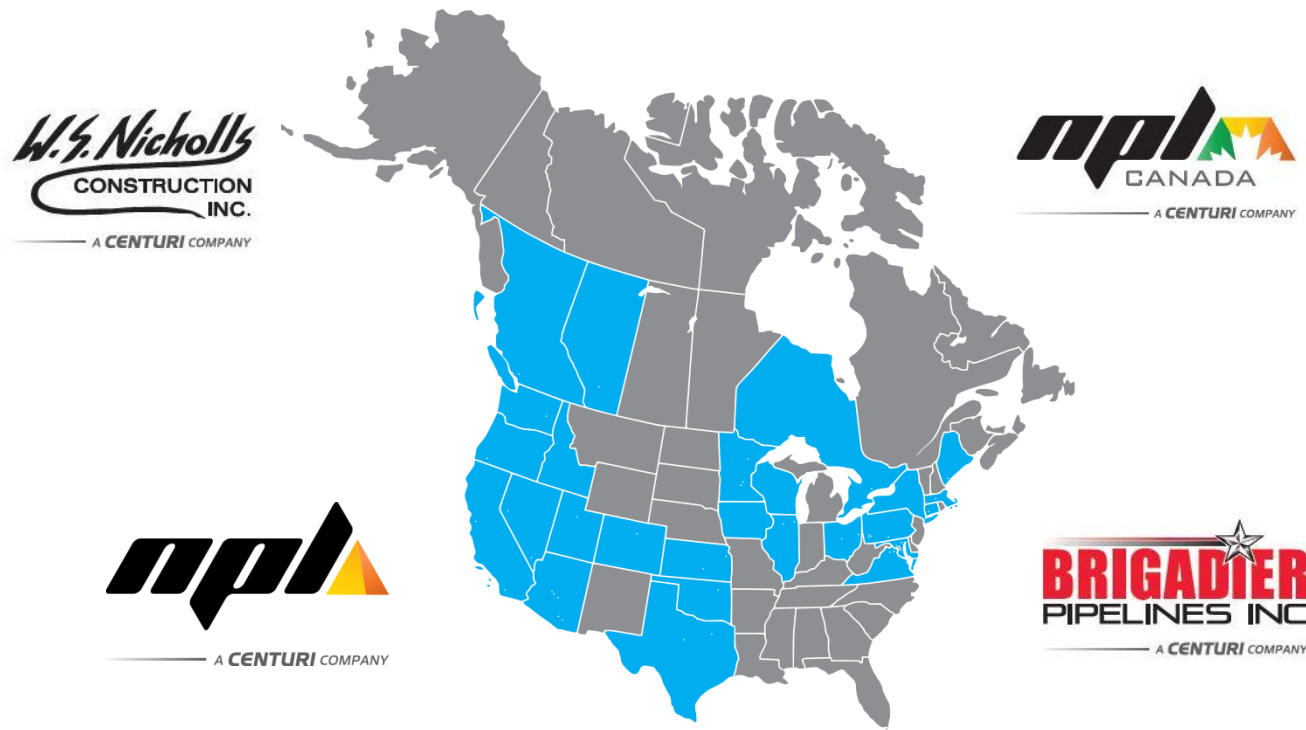
■ Long-term debt 47%



# Centuri Construction Group

## Construction Services - Markets

- Headquartered in Phoenix, Arizona
- Operates in 22 markets across U.S. and Canada
- One of North America's largest full-service underground pipeline contractors
- Primary focus is trenching, installation, replacement and maintenance of energy distribution systems





# Centuri Construction Group

## Construction Services - Customers

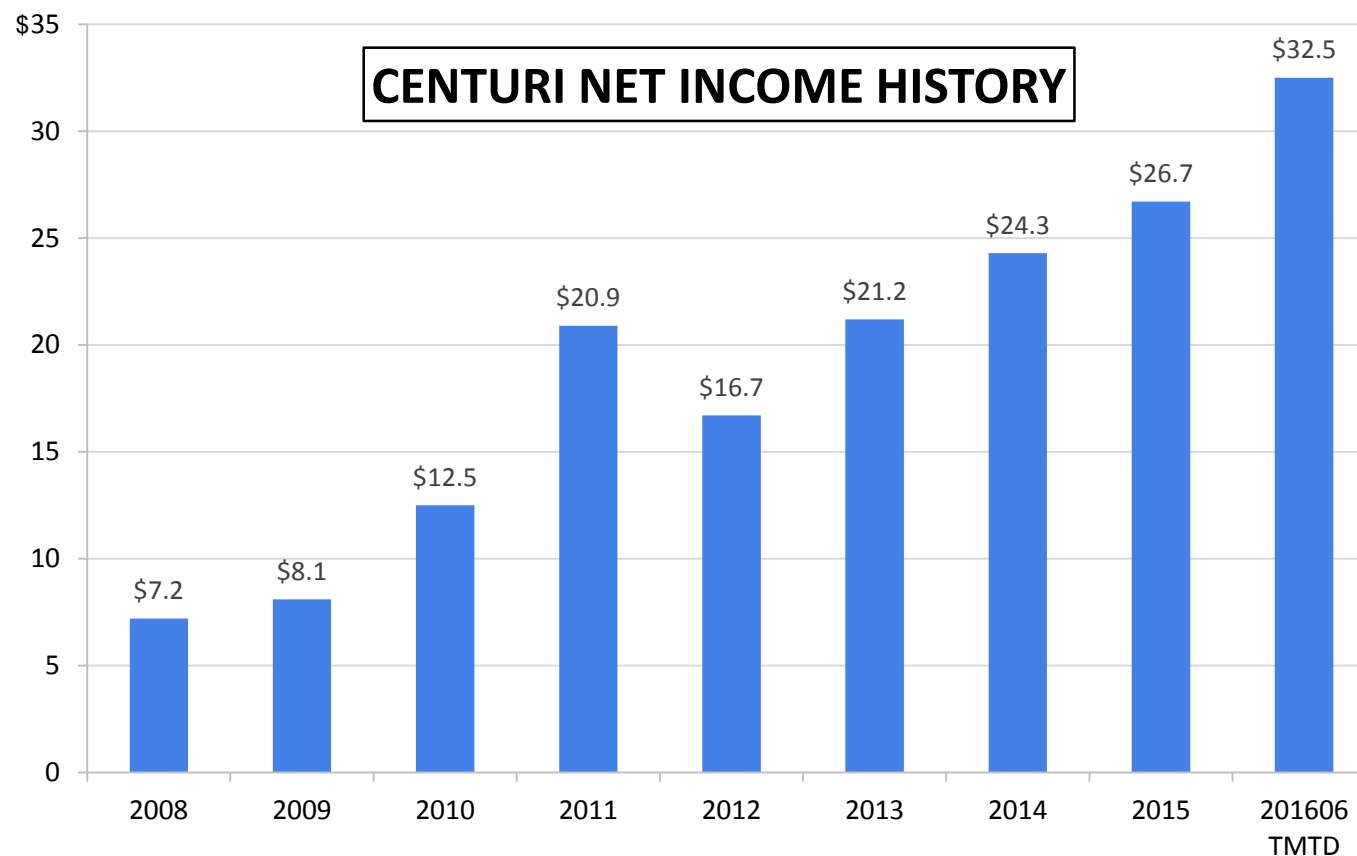


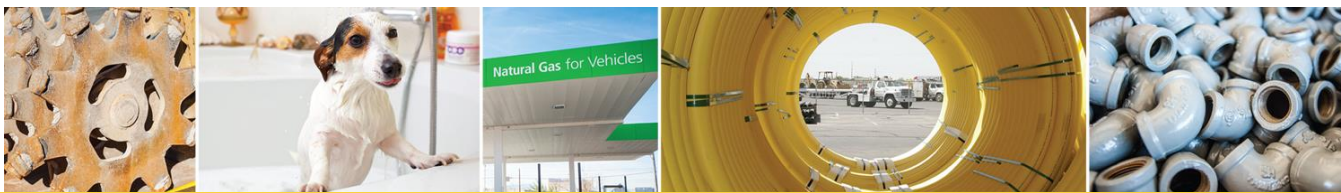


# Centuri Construction Group

## Historical Long-Term Profitability

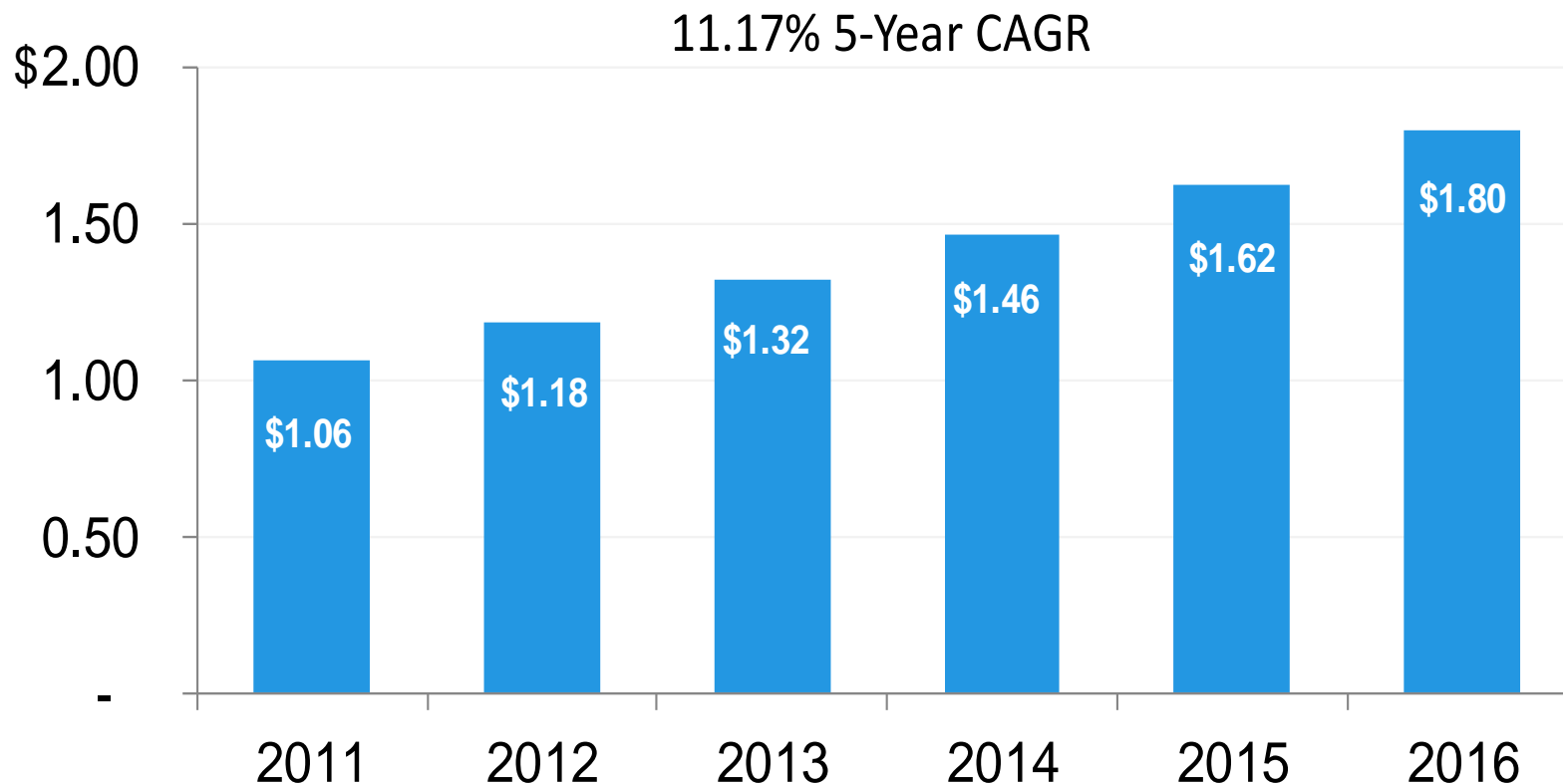
(\$ in millions)





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# Annualized Dividend Growth



CAGR = compound annual growth rate

February 2016, Board increased annual dividend \$0.18