

# 2019 Year End Earnings Conference Call

February 27, 2020



**Southwest Gas**™  
HOLDINGS

# PARTICIPANTS



**John Hester**  
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Southwest Gas Corporation



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VP/Finance/Treasurer  
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# SAFE HARBOR STATEMENT

This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (“SEC”). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2020 expectations for our utility infrastructure services and natural gas operations segments, projected natural gas operations customer growth through 2022, estimated natural gas operations capital expenditures through 2022, our 2020 EPS guidance and expected long-term value drivers, as well as statements regarding our expansion projects and other investment opportunities.

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 most recent 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, infrastructure tracking mechanisms;
- Customer growth rates;
- Conditions in housing markets;
- The effects of regulation/deregulation;
- The impacts of construction activity at our infrastructure services segment;
- The impacts from acquisitions;
- 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.



# DISCIPLINED STRATEGIC FOCUS

## UTILITY

- Rate case execution
- Customer growth and economic development
- Cost control and affordability to customers
- Continued capital and rate base growth
- Ongoing decarbonization and efficiency
- Continued earnings and dividend growth

## HOLDINGS

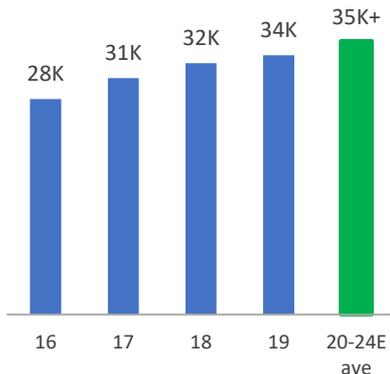
Both businesses  
focused on  
profitable growth  
and efficient  
allocation of  
shareholder capital

## INFRASTRUCTURE

- Operations execution focus
- Cost management and resource optimization
- Cross-selling services
- Increasing profitability and dividends
- Cash source for SWX

## Southwest Gas

### Customer growth



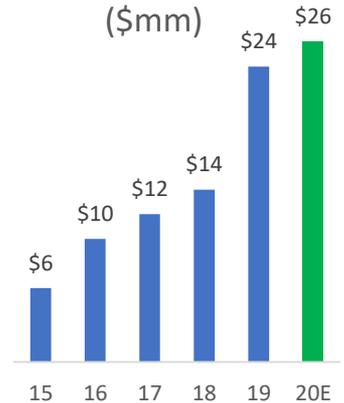
### Rate Base (\$bn)



### Revenue (\$bn)



### Dividends to SWX (\$mm)



# 2019 HIGHLIGHTS

## Consolidated Results

- Diluted EPS of \$3.94
- Dividend increase for the 14<sup>th</sup> straight year
- Reincorporation from California to Delaware

## Natural Gas Segment

- 34,000 net new customers over the past 12 months (1.7% growth rate)
- \$23 million additional margin due to rate relief and customer growth
- Arizona and California general rate cases filed

## Utility Infrastructure Services Segment

- Record revenues of \$1.75 billion
- Record annual net income of \$52.4 million
- 2019 results include a full year of Linetec



# OUTLINE

<b>I</b>	Financial results – December 31, 2019	<b>V</b>	Dividend growth
<b>II</b>	Regulation	<b>VI</b>	Sustainability Efforts
<b>III</b>	Economic overview & customer growth	<b>VII</b>	2020 Expectations
<b>IV</b>	Capital expenditures		



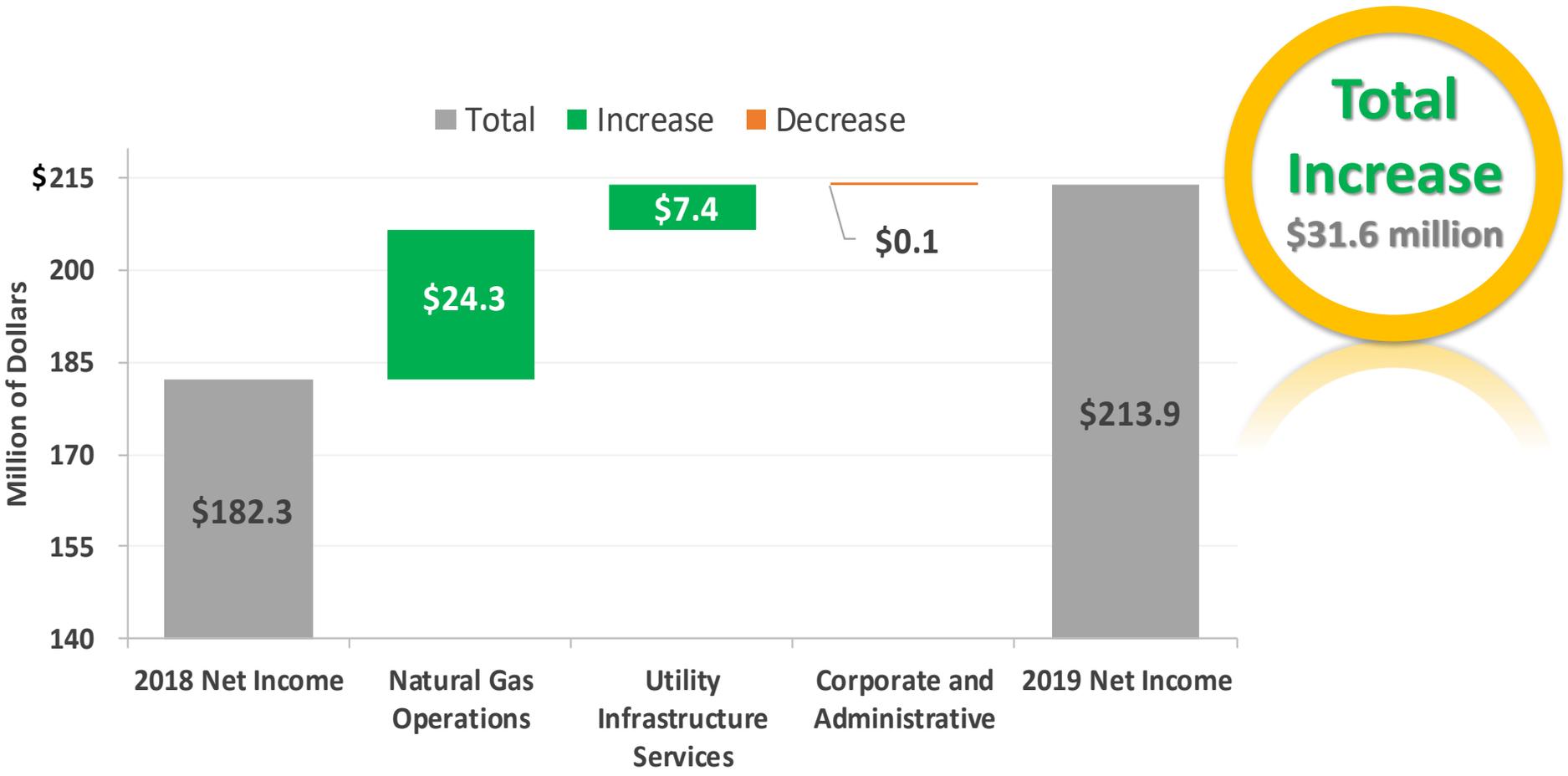
# SUMMARY OF OPERATING RESULTS

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Year ended December 31,	
	2019	2018
<b>Results of Consolidated Operations</b>		
Natural gas operations income	\$ 163,171	\$ 138,842
Utility infrastructure services income	52,404	44,977
Other - corporate and administrative	(1,639)	(1,542)
Net income	<u>\$ 213,936</u>	<u>\$ 182,277</u>
Basic earnings per share	<u>\$ 3.94</u>	<u>\$ 3.69</u>
Diluted earnings per share	<u>\$ 3.94</u>	<u>\$ 3.68</u>
Weighted average common shares	54,245	49,419
Weighted average diluted shares	54,312	49,476

# CONSOLIDATED NET INCOME

## YEAR ENDED DECEMBER 31, 2019



# BUSINESS SEGMENTS

Natural Gas Operations



**SOUTHWEST GAS**

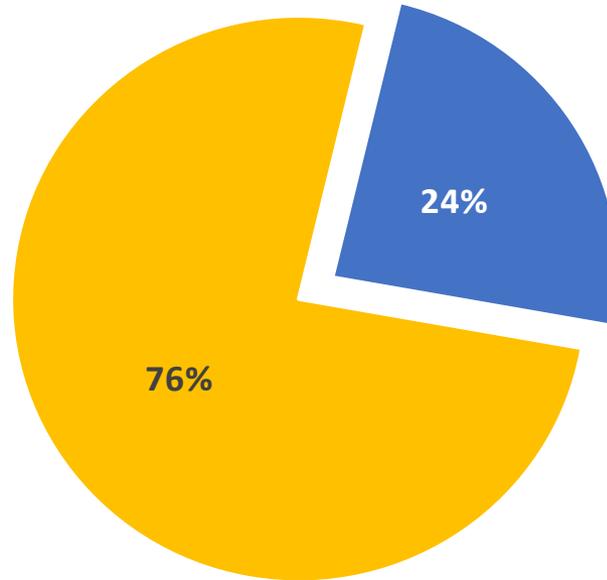
Utility Infrastructure  
Services



**CENTURI**

**\$214MM**

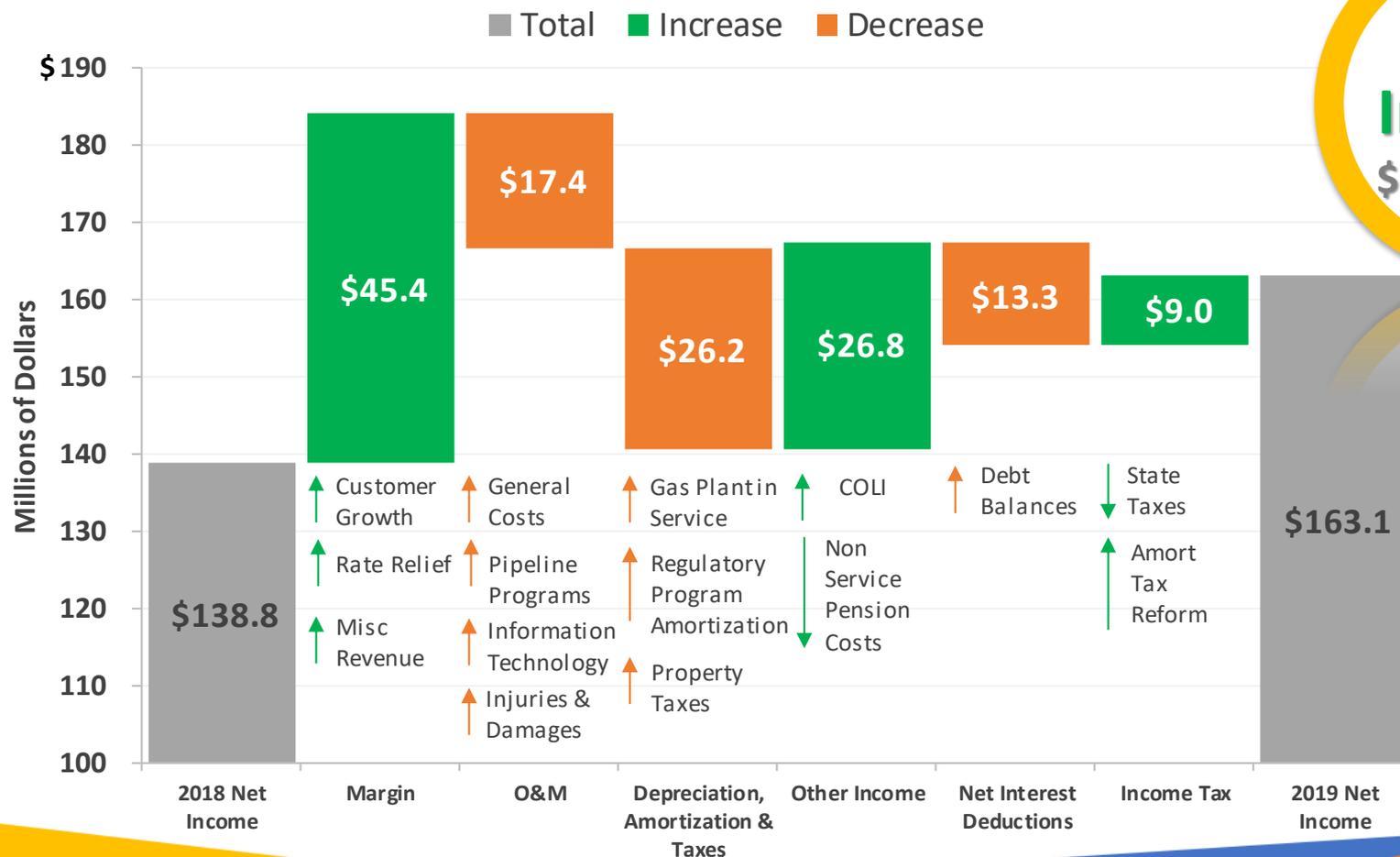
Year ended 12/31/19 Net Income



# NET INCOME

## YEAR ENDED DECEMBER 31, 2019

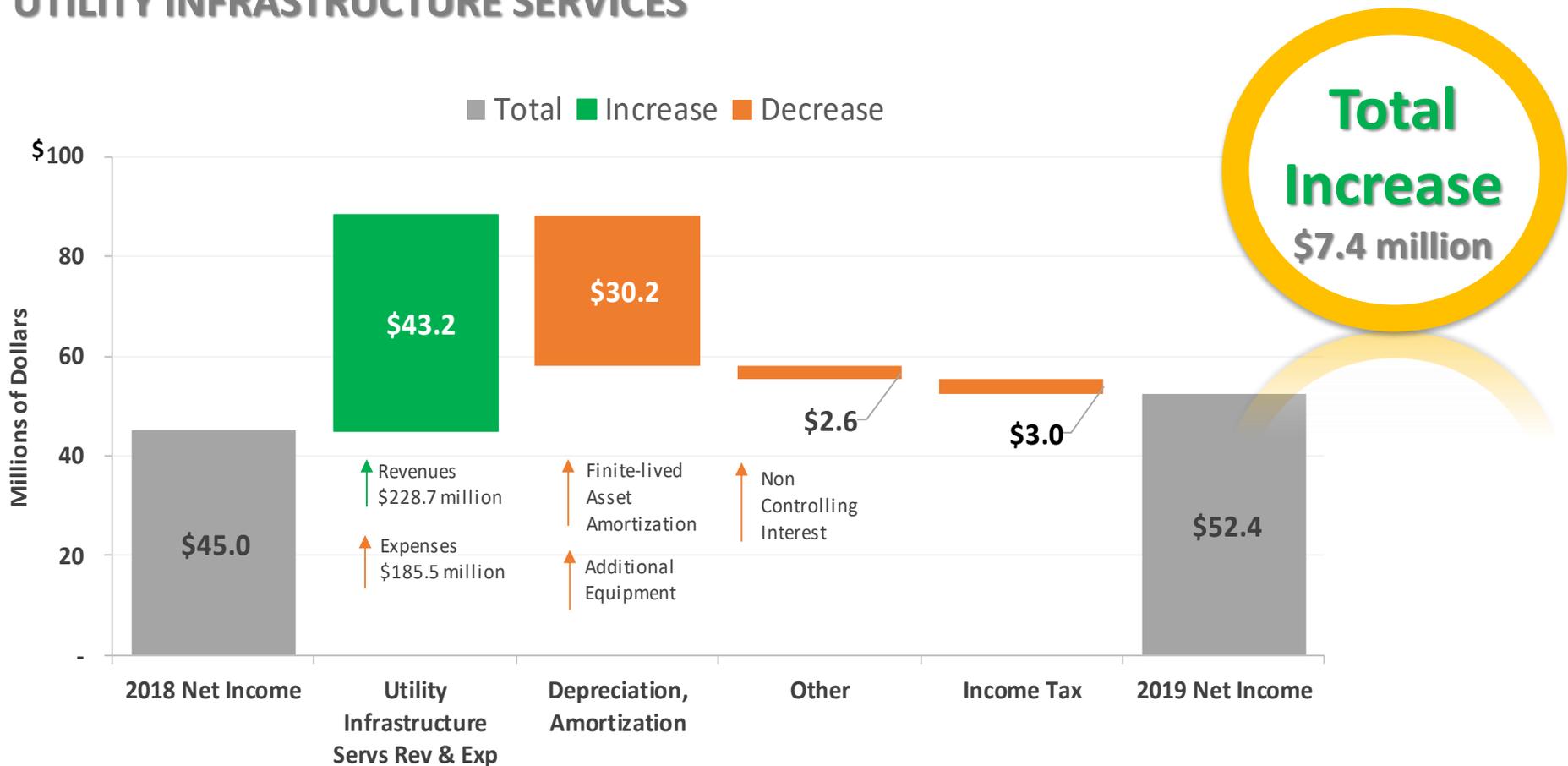
### NATURAL GAS OPERATIONS



# NET INCOME

## YEAR ENDED DECEMBER 31, 2019

### UTILITY INFRASTRUCTURE SERVICES



# REGULATION – RATE CASE ACTIVITY

## ARIZONA

### NATURAL GAS OPERATIONS

Amended Requests	Arizona General Rate Case		
	Filed	Staff Recommended	RUCO Recommended
Rate Relief	\$93.3M	\$61.6M	\$48.4M
Rate Base	\$2.1B (\$790M increase)	\$2.06B	\$1.99B
ROE	10.3%	9.30%	9.20%
Capital Structure Equity Ratio	51.1%	51.1%	51.1%
Other Proposals:			
Decoupling	Proposed	Support	Neutral
Property Tax Tracker	Proposed	Support	Neutral
COYL	Proposed	Support	Limited
VSP	Proposed	Oppose	Oppose
Plastic Pipe	Proposed	Oppose	Oppose
RNG Program	Proposed	Oppose	Oppose
Additional EDIT	N/A	(\$15M)	N/A
Interest on EDIT	N/A	(\$19.8M)	N/A
Schedule	Hearing – April 20, 2020 Final Decision – Estimated Late 2Q/Early 3Q 2020		

# REGULATION – RATE CASE ACTIVITY

## NATURAL GAS OPERATIONS

As Filed	State – General Rate Cases	
	California	Nevada
Rate Relief	\$12.8M	\$38.3M
Rate Base	\$482M (\$230M increase)	\$1.5B (\$230M increase)
ROE	10.5%	10%
Capital Structure Equity Ratio	53%	50%
Rate Design	Decoupling Mechanism (Cont) Increase Basic Service Charge	Decoupling Mechanism (Cont)
Other Proposals	Pension Balancing Acct. (Cont) Attrition Adjustment of 2.75% (Cont) Targeted Pipe Replacement Prog. Meter Protection Program Expand COYL Program	Cost Recovery Proposal for Customer Data Modernization Initiative
Schedule	Hearing – June 2020 Decision - Late 4Q 2020	Hearing – est. Aug 2020 Decision – est. Sept 2020

# REGULATION – RATE CASE ACTIVITY

## PAIUTE PIPELINE NATURAL GAS OPERATIONS

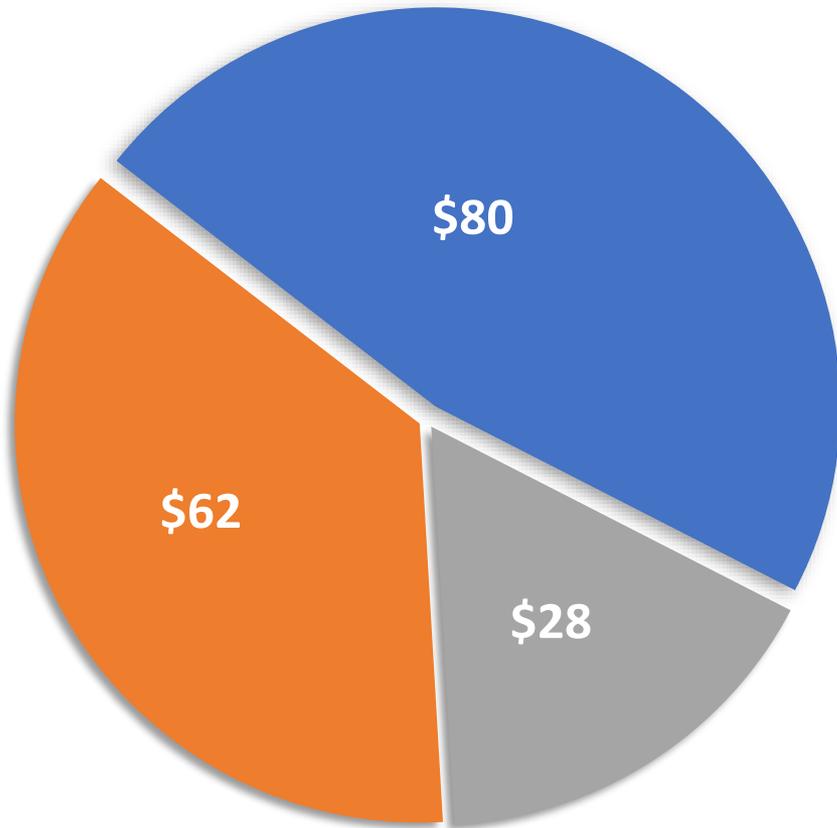
Requests	Proposed	Settlement
Revenue Increase	\$7.1M	(\$700k)
Rate Base	\$137M	\$137M
ROE	14.84%	N/A
Capital Structure Equity Ratio	56.0%	N/A
Other Noteworthy Items:		
	Pre-tax Rate of Return – 9.90%	
	Continuation of Term Differentiated Rates	
	Transportation and LNG Storage Contract Extensions – 5 years	

\*Settlement agreement expected no later than March 31, 2020.

# REGULATION – EXPANSION PROJECTS

## NATURAL GAS OPERATIONS

\$ in millions



### ARIZONA LNG FACILITY

- Approved \$80 million, 233,000 dekatherm LNG facility
- Approximately \$73 million spent through December 2019
- LNG facility was placed into service in December 2019

### SOUTHERN NEVADA EXPANSION

- PUCN approved \$28 million expansion project in May 2018 to extend facilities to Mesquite, NV (SB 151 project)
- Estimated annual revenue requirement of \$2.8 million
- Began serving customers in February 2019 using a temporary virtual pipeline and compressed natural gas
- Approach main to provide permanent supply is anticipated to be placed in service in the first quarter in 2021

### NORTHERN NEVADA EXPANSION

- PUCN approved \$62M expansion project in December 2019 to extend facilities to Spring Creek, NV (SB 151 project)
- Estimated annual revenue requirement of \$2M in year 1
- Construction anticipated to begin summer 2020



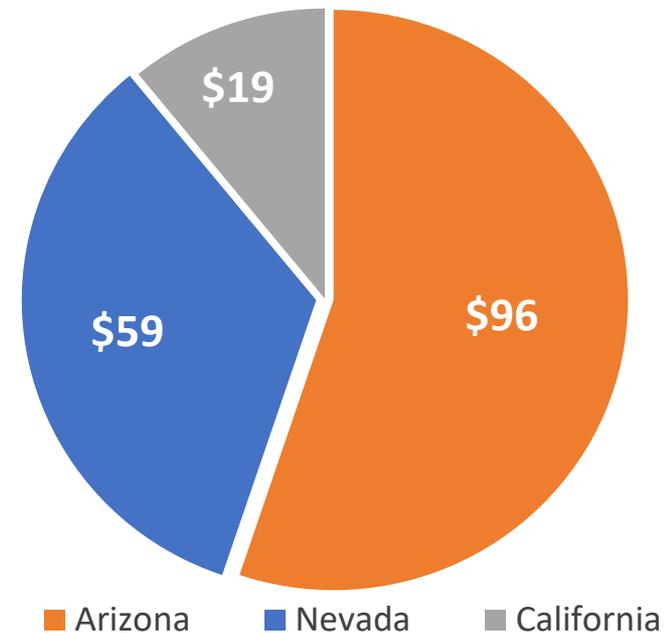
# REGULATION – REGULATORY PROCEEDINGS

## NATURAL GAS OPERATIONS

### Customer Data Modernization Initiative Applications

- Applications filed in March 2019 with both the ACC and PUCN to authorize the establishment of a regulatory asset to defer the revenue requirement related to the CDMI
  - PUCN denial September 2019
    - Filed petition for reconsideration – denial November 2019
    - Cost recovery proposal included in 2020 filed rate case
  - ACC hearing scheduled April 2020
- Application filed in April 2019 with the CPUC to authorize a two-way, interest-bearing account to record actual revenue and costs associated with CDMI
  - Memorandum account approved October 2019
  - Decision on balancing account expected early 2020

**Total Estimated Cost:  
\$174 Million**  
**Allocation by State Rate Jurisdiction**



# SUSTAINABILITY DEVELOPMENTS



## Arizona

- G65 Tariff - Facilitates development of investment in RNG related projects
- Balanced Energy Solutions Act (HB2686)
- RNG program proposal in GRC
- Facilitating CNG and RNG development opportunities



## California

- Proposed Biomethane Gas Plan – facilitates RNG purchases as part of gas supply portfolio
- Rule 22 – Provides framework for RNG suppliers to interconnect with SWG facilities
- Facilitating CNG and RNG development opportunities



## Nevada

- RNG Tariff – Facilitates development of investment in RNG related projects
- SB 154 – Investment in RNG projects, to build, own and operate RNG facilities or purchase of RNG as part of gas supply portfolio
- Facilitating CNG and RNG development opportunities

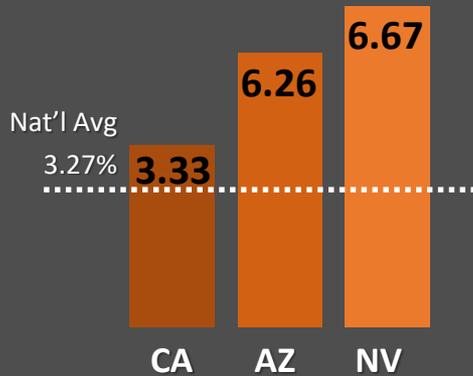


# OUR SERVICE TERRITORY IS GROWING



Aggressive  
Population  
Growth

Projected Growth % (2020 – 2025)

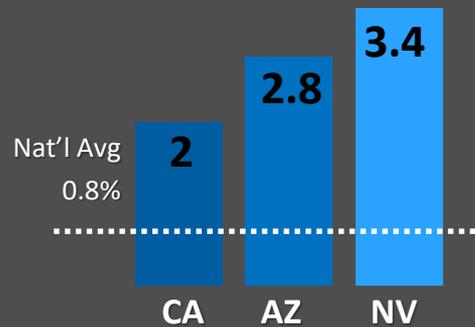


Source: S&P Global Market Intelligence



Aggressive  
Job  
Growth

Projected Growth %

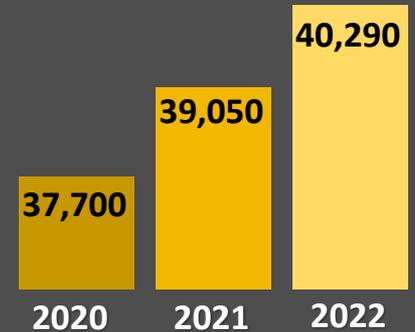


Source:  
<https://www.statista.com/statistics/312639/job-growth-in-the-united-states-by-state/>



Aggressive  
Homebuilding  
Activity

Projected New Home Closings



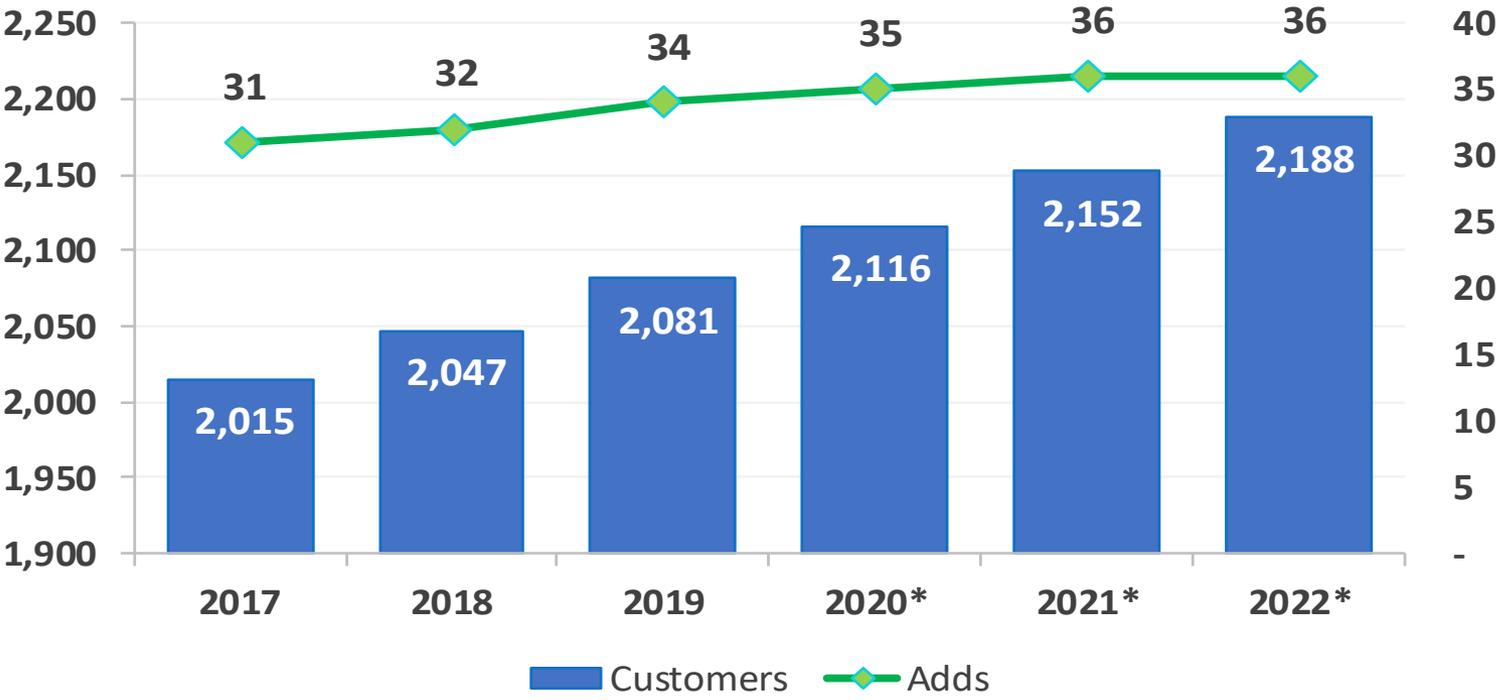
Reflects projected new home closings in Phoenix, Las Vegas and Tucson



# CUSTOMER GROWTH

## NATURAL GAS OPERATIONS

Year ended December 31,  
(In thousands)



\* Projected



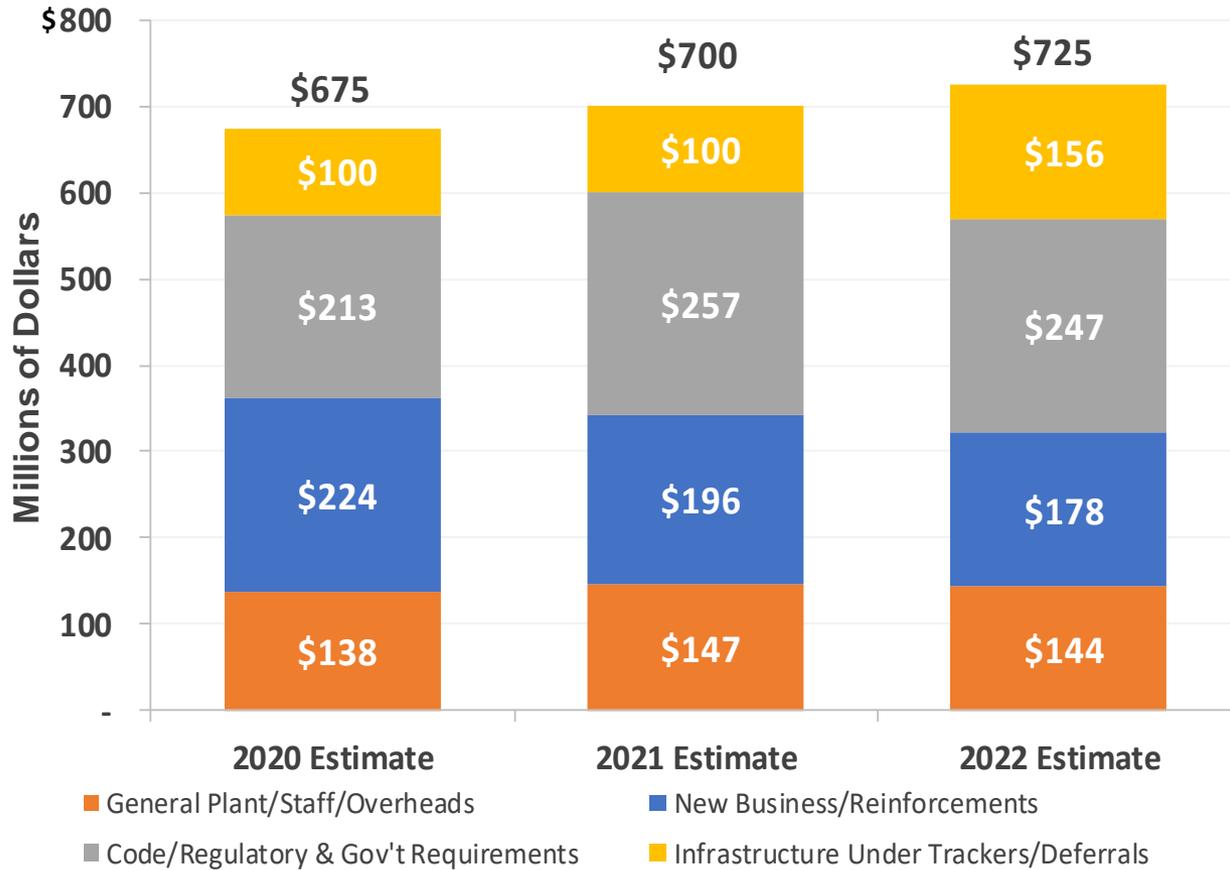
# CAPITAL EXPENDITURES

## NATURAL GAS OPERATIONS

- 51% Investments in Safety and Reliability
- 29% New Business/Reinforcements
- 20% General Plant
- Long-Term Financing Activity
- Anticipate funding 50% from internal cash flows and remaining 50% through a balance of debt and equity (ATM Program)

**\$2.1 Billion  
Capital  
Investment**

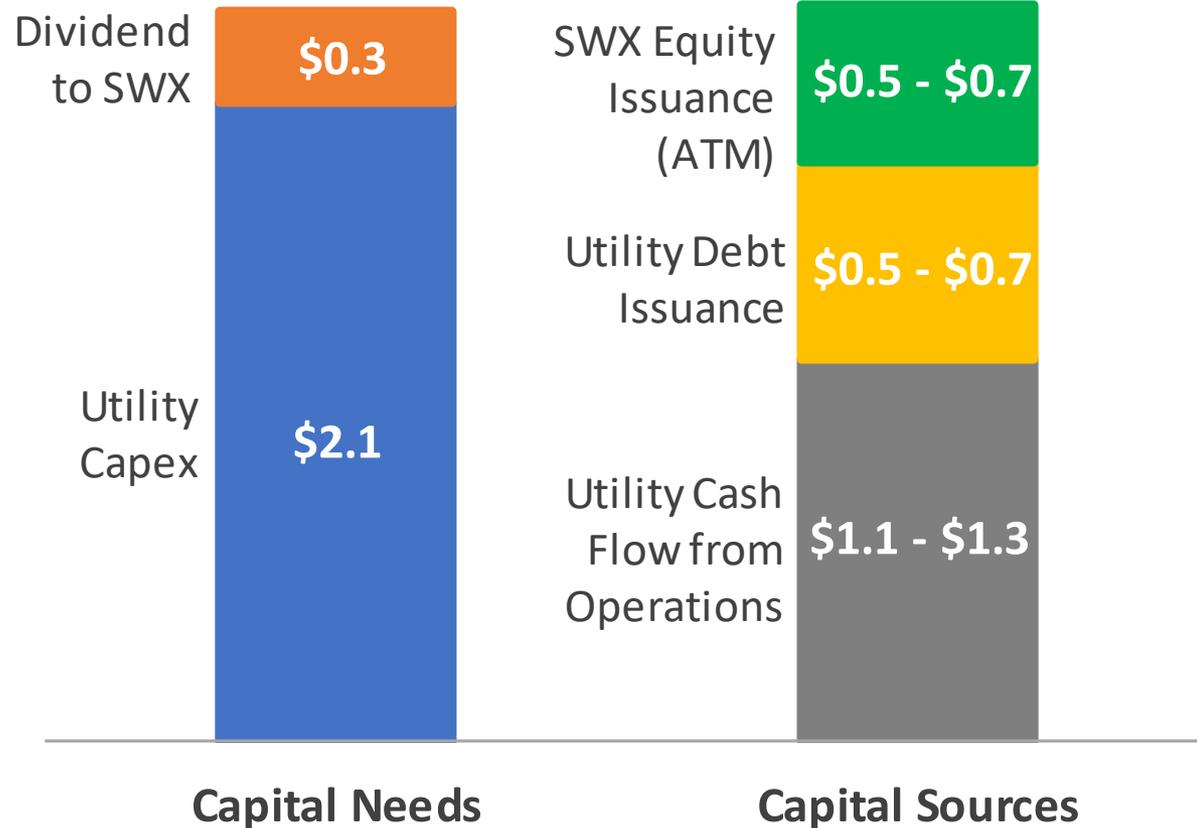
Estimated  
2020-2022



# CAPITAL FUNDING

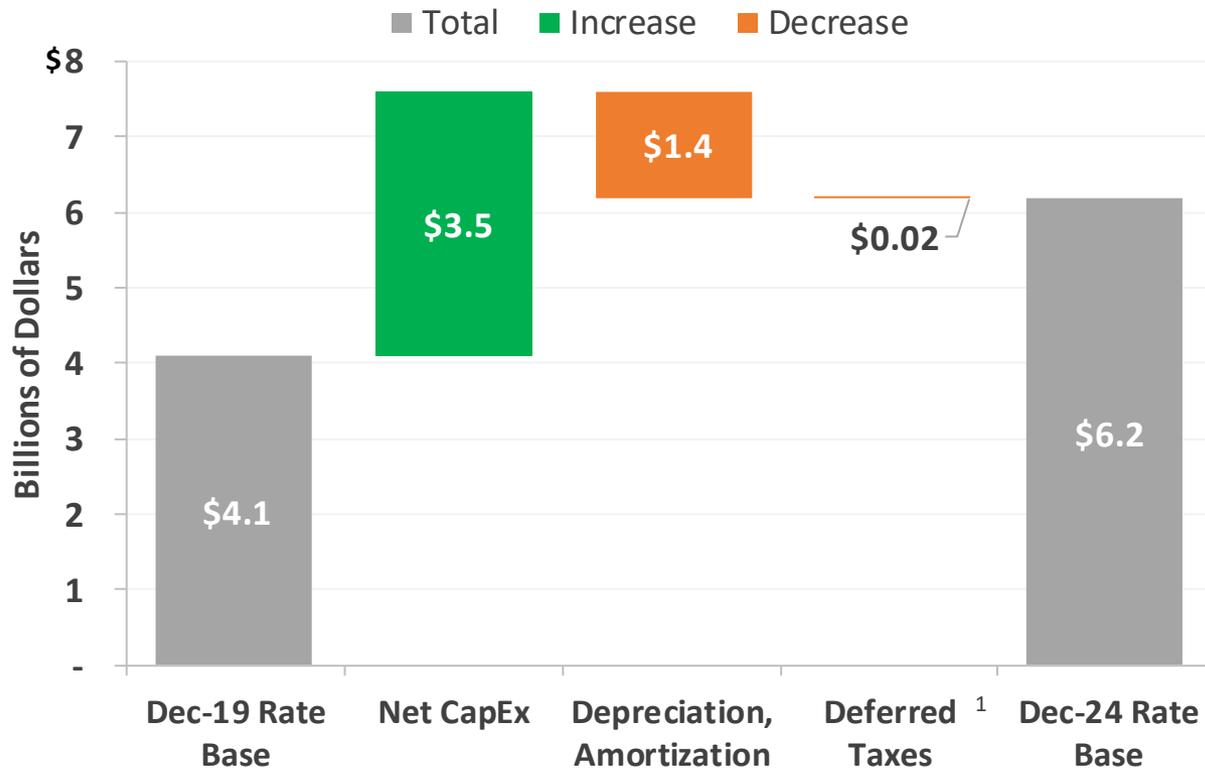
## NATURAL GAS OPERATIONS

3-year Capital Needs and Sources (\$bn)



# RATE BASE GROWTH

## NATURAL GAS OPERATIONS



Rate base amounts reflect estimated total investment in facilities necessary to provide utility service. This is different than our authorized rate base, which is the rate base investment that has been approved by our regulatory bodies and that is reflected in rates.

Projecting 8.6% Compound Annual Growth Rate (CAGR) in rate base (2020-2024).

<sup>1</sup> Includes changes in the regulatory liability created due to tax reform.

# DIVIDEND GROWTH

## 7.1% 5-Year Dividend CAGR



CAGR = compound annual growth rate

Maintain ~ payout ratio between 55% – 65%  
Expect future dividends to increase at the sustainable earnings growth rate

# SUSTAINABLY SOUTHWEST: SHAPING THE FUTURE

Southwest Gas is demonstrating stewardship by reducing its carbon footprint and building a sustainable future

## Sustainable Practices



- Southwest Gas has committed to a 20% reduction in GHG emissions from fleet, building facilities and other initiatives by 2025

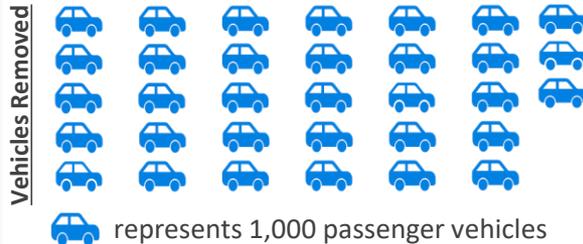
- LED lighting
- Energy efficiency
- Computerized HVAC
- Energy Star bill management system
- Solar canopies
- Replacement of fleet
- CNG/alternative fuel
- CNG fueling stations

## Compressed Natural Gas (“CNG”)

- Southwest Gas is currently working with local organizations to reduce emissions from the transportation sector in our service territories



- The 29M therms delivered to customers in 2018 represent the emissions reduction equivalency of taking 33K passenger vehicles off the road.

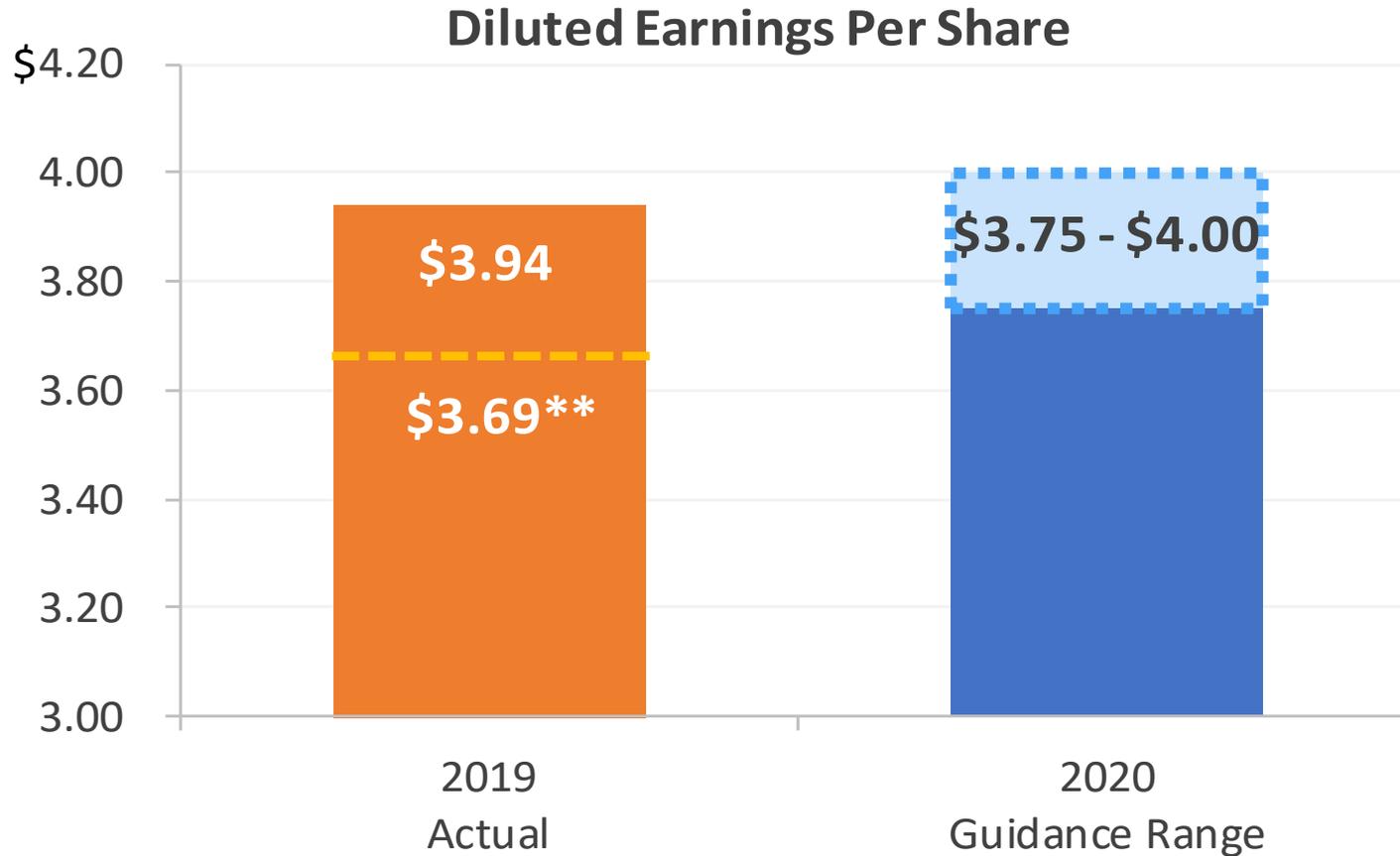


## Renewable Natural Gas (“RNG”)

- RNG is sourced from capturing waste methane that otherwise would be vented into the atmosphere
  - Landfills
  - Wastewater treatment facilities
  - Agricultural operations
- RNG is a cost-effective way to reduce GHG emissions and decarbonize gas supplies
- Southwest Gas is actively facilitating RNG development and is working to establish RNG-friendly regulation in its service territories

**90%** of Southwest Gas customers see RNG as environmentally friendly

# 2020 EPS GUIDANCE \*



\*Changes in economic conditions, events, or other circumstances that the Company cannot currently anticipate could materially impact earnings and, in turn, result in earnings for 2020 significantly above or below this EPS guidance.

\*\*Normalized COLI within EPS.

# 2020 SUPPLEMENTAL EXPECTATIONS

## Natural Gas Operations

- Operating margin is expected to increase 4% - 5% due to continued customer growth (1.7%), infrastructure projects and rate relief.
- Operating income is expected to increase 3% - 5%.
- Pension costs are expected to increase \$13.6 million due to the impact of a lower discount rate resulting from lower interest rates measured as of December 31, 2019, offset partially by positive asset performance. Approximately \$5.2 million of the increase reflected in other expense.
- Assume normalized COLI \$3 million – \$5 million.
- Capital expenditures expected to be \$2.1 billion over 3-years ending 2022, with 2020 ranging from \$650 million - \$700 million.
- SWX Equity issuances of approximately \$200 million through ATM program.

## Utility Infrastructure Services

- Revenues expected to increase 5% – 10% through organic growth.
- Operating income is expected to be 5.5% – 6% of revenues.
- Interest expense is expected to be \$13.5 million to \$14.5 million.
- Net income expectations reflect earnings attributable to Southwest Gas Holdings, net of approximately \$4 million of noncontrolling interests. Changes in Canadian exchange rates could influence results.

# LONG-TERM EXPECTATIONS

## Holdings

- Equity issuances (through ATM), \$500 million - \$675 million over 3-years ending 2022.
- Target dividend payout ratio: 55% - 65%.

## Natural Gas Operations

- Capital expenditures are expected to be approximately \$3.5 billion over 5 years ending 2024.
- Rate base growth is expected to be 8.6% through the same period.

## Utility Infrastructure Services

- Revenues expected to grow an average 5% – 8% annually over 3-years ending 2022.
- Operating income expected to be 5.5% - 6.5% of revenues over 3-years ending 2022.



# ATTRACTIVE & COMPLEMENTARY BUSINESS SEGMENTS

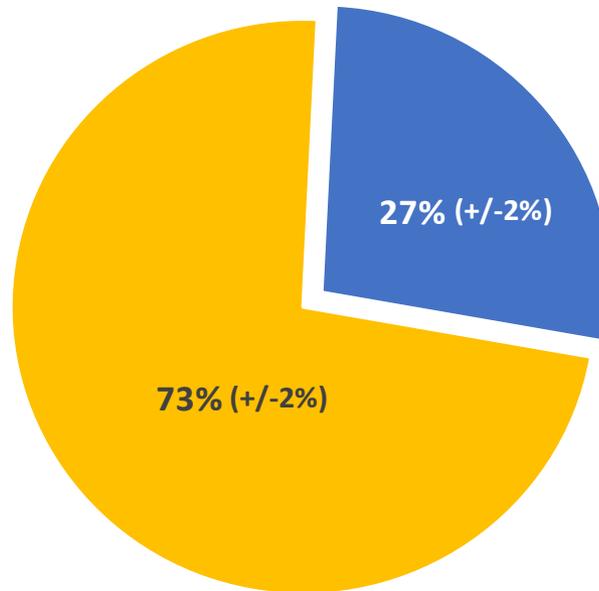
## Natural Gas Operations



**SOUTHWEST GAS**

- Customer growth
- Strong rate base growth
- Focus on safety and reliability
- Newer, well maintained system

Projected % Net Income  
2020-2022



## Utility Infrastructure Services



**CENTURI**

- Low risk service platform
- Long-term relationships with exceptional investment grade customers
- 92% of revenues from time & materials and unit priced contracts
- Increasing dividends and free cash flow

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# APPENDIX

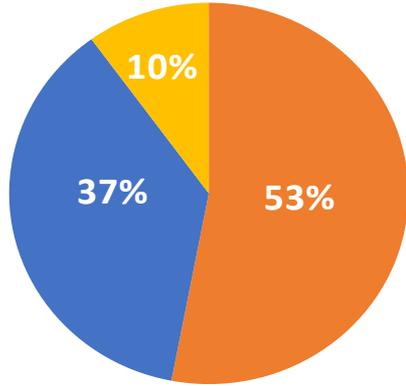
# STABLE CUSTOMER BASE

## NATURAL GAS OPERATIONS

Year ended December 31, 2019  
 Customer & Operating Margin Distribution

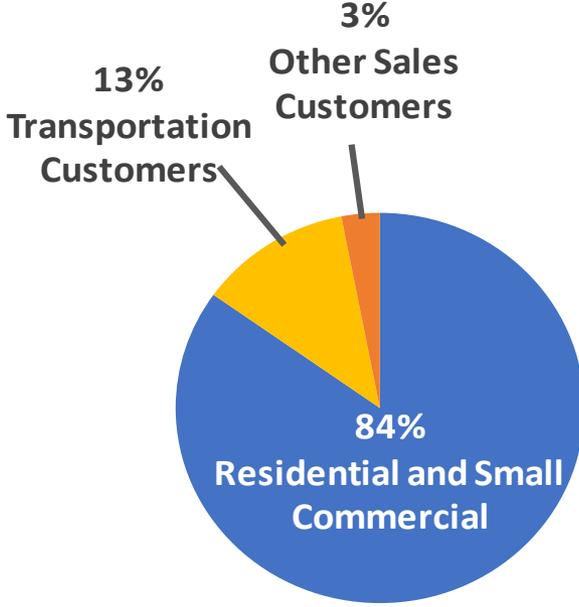
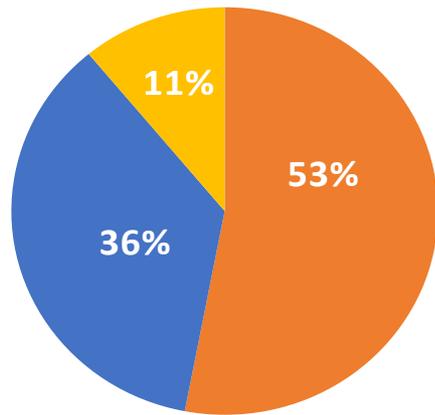
By State

Customers



- Arizona
- Nevada
- California

Margin

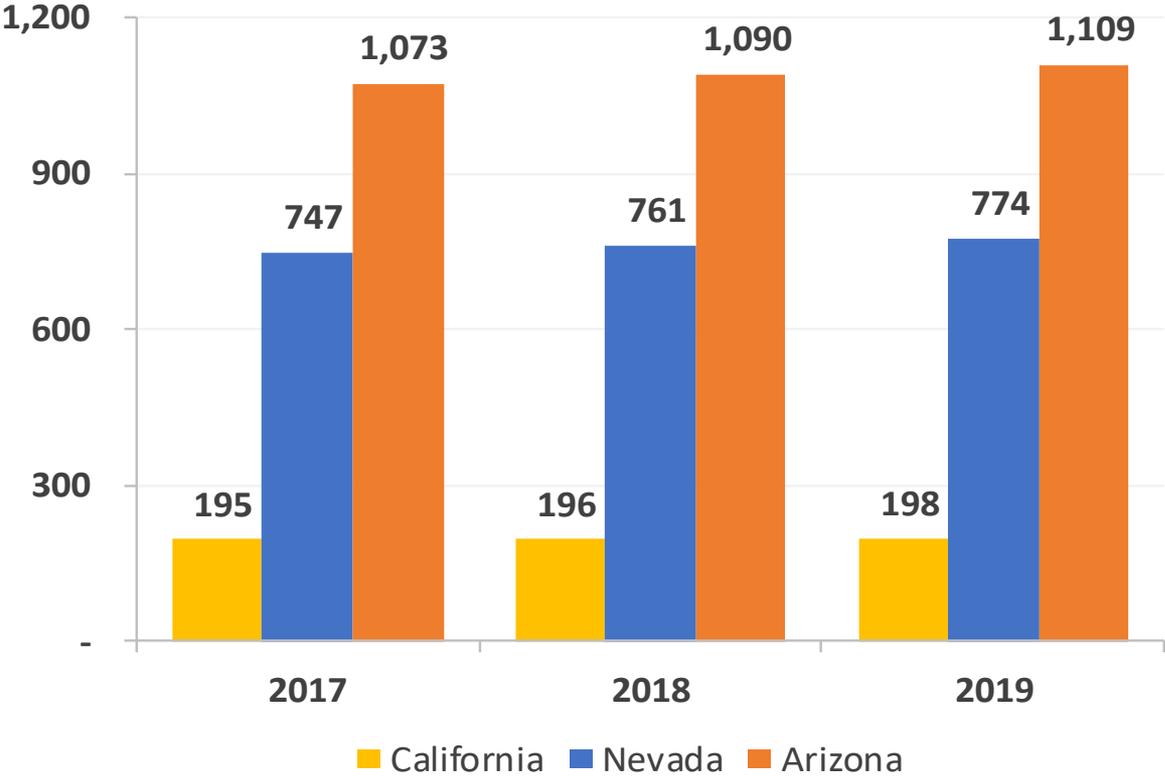


# CUSTOMERS BY STATE

## NATURAL GAS OPERATIONS

(IN THOUSANDS)

As of December 31,



# SUMMARY OPERATING RESULTS

## NATURAL GAS OPERATIONS

(IN THOUSANDS)

Year ended December 31,

2019

2018

### Results of Natural Gas Operations

Gas operating revenues	\$ 1,368,939	\$ 1,357,728
Net cost of gas sold	385,164	419,388
Operating margin	983,775	938,340
Operations and maintenance expense	422,174	404,813
Depreciation and amortization	215,620	191,816
Taxes other than income taxes	62,328	59,898
Operating income	283,653	281,813
Other income (deductions)	9,517	(17,240)
Net interest deductions	95,026	81,740
Income before income taxes	198,144	182,833
Income tax expense	34,973	43,991
Segment net income	\$ 163,171	\$ 138,842



# PURCHASED GAS ADJUSTMENT (PGA) BALANCES

## NATURAL GAS OPERATIONS

(IN THOUSANDS)

	As of December 31,	
	2019	2018
Arizona	\$ (59,259)	\$ (72,878)
Northern Nevada	11,894	4,928
Southern Nevada	32,518	(5,951)
California	(1,496)	(933)
Total Receivable/(Payable)	\$ (16,343)	\$ (74,834)



# AUTHORIZED RATE BASE AND RATES OF RETURN

## NATURAL GAS OPERATIONS

<u>Rate Jurisdiction</u>	<u>Authorized Rate Base (In thousands)</u>	<u>% of Total Rate Base</u>	<u>Authorized Rate of Return</u>	<u>Authorized Return on Common Equity (ROE)</u>	<u>Authorized Common Equity Ratio</u>
Arizona	\$ 1,324,902	46 %	7.42 %	9.50 %	51.70 %
Southern Nevada	1,110,376	38	6.65	9.25	49.66
Northern Nevada	134,230	5	6.98	9.25	49.66
Southern California	159,277	5	6.83	10.10	55.00
Northern California	67,620	2	8.18	10.10	55.00
South Lake Tahoe	25,389	1	8.18	10.10	55.00
Paiute Pipeline Company <sup>1</sup>	87,158	3	8.46	11.00	51.75
<b>Total</b>	<b>\$ 2,908,952</b>	<b>100 %</b>			

Weighted average authorized ROE

9.49 %

<sup>1</sup>Estimated amounts based on 2014/2015 rate case settlement.

\*\*Authorized rate base and rates of return as of March 2019.

# REGULATION

## ARIZONA GENERAL RATE CASE NATURAL GAS OPERATIONS

Date	Procedural Schedule - Docket No. G-01551A-19-0055
May 1, 2019	Application Filed
<b>Except Class Cost of Service and Rate Design</b>	
February 5, 2020	Direct Testimony (Staff/Intervenor)
<b>Class Cost of Service and Rate Design</b>	
February 19, 2020	Direct Testimony (Staff/Intervenor)
<b>Other Testimonies</b>	
March 11, 2020	Rebuttal Testimony (SWG)
April 3, 2020	Surrebuttal Testimony (Staff/Intervenor)
April 14, 2020	Rejoinder Testimony (SWG)
<b>Hearings</b>	
April 16, 2020	Prehearing Conference
April 20, 2020	Commence Hearing

# REGULATION

## CALIFORNIA GENERAL RATE CASE

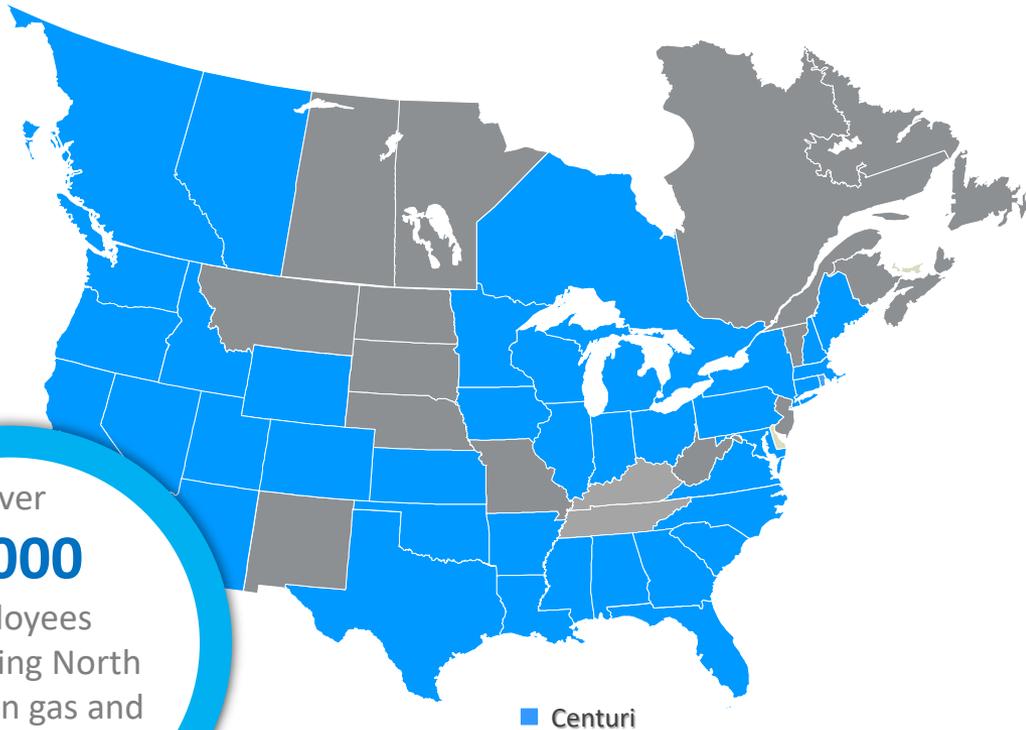
### NATURAL GAS OPERATIONS

Date	Procedural Schedule - Docket No. A.19-08-015
August 30, 2019	Application Filed
<b>Testimonies</b>	
March 27, 2020	Public Advocates Office's Testimony Served
April 10, 2020	Intervenor Testimony Served
May 15, 2020	Rebuttal Testimony Served
June 26, 2020	Opening Briefs Filed
July 15, 2020	Reply Briefs Filed
<b>Hearings</b>	
June 3-5, 2020	Evidentiary Hearing
October 2020	Proposed Decision Issued
November/December 2020	Commission Decision



# DIVERSIFIED UTILITY INFRASTRUCTURE SERVICES

## MULTI SERVICE PLATFORM REDUCES RISK



Over  
**8,000**  
employees  
supporting North  
American gas and  
electric utilities



# MAJOR CUSTOMERS

## UTILITY INFRASTRUCTURE SERVICES



# SUMMARY OPERATING RESULTS

## UTILITY INFRASTRUCTURE SERVICES

(IN THOUSANDS)

	Year ended December 31,	
	2019	2018
Utility infrastructure services revenues	\$ 1,750,978	\$ 1,522,285
Utility infrastructure services expenses	1,573,227	1,387,689
Depreciation and amortization	87,617	57,396
Operating income	90,134	77,200
Other income (deductions)	466	(238)
Net interest deductions	14,086	14,190
Income tax expense	21,399	18,420
Noncontrolling interests	2,711	(625)
Segment net income	<u>\$ 52,404</u>	<u>\$ 44,977</u>

# SERVICE AND CONTRACT TYPES

## UTILITY INFRASTRUCTURE SERVICES

	Year ended December 31 ,			
	(Thousands of Dollars)		(Percentage)	
	2019	2018	2019	2018
<b>Service Types:</b>				
Gas infrastructure services	\$ 1,238,974	\$ 1,123,682	70.8%	73.8%
Electric power infrastructure services	247,717	32,629	14.1%	2.2%
Other	264,287	365,974	15.1%	24.0%
Total Utility infrastructure services revenues	<u>\$ 1,750,978</u>	<u>\$ 1,522,285</u>	<u>100.0%</u>	<u>100.0%</u>

	Year ended December 31 ,			
	(Thousands of Dollars)		(Percentage)	
	2019	2018	2019	2018
<b>Contract Types:</b>				
Master services agreement	\$ 1,383,377	\$ 1,102,412	79.0%	72.4%
Bid contract	367,601	419,873	21.0%	27.6%
Total Utility infrastructure services revenues	<u>\$ 1,750,978</u>	<u>\$ 1,522,285</u>	<u>100.0%</u>	<u>100.0%</u>
Unit price contracts	\$ 1,380,256	\$ 1,258,419	78.8%	82.7%
Fixed price contracts	112,924	117,298	6.5%	7.7%
Time and material contracts	257,798	146,568	14.7%	9.6%
Total Utility infrastructure services revenues	<u>\$ 1,750,978</u>	<u>\$ 1,522,285</u>	<u>100.0%</u>	<u>100.0%</u>

# TOP 20 CUSTOMERS

## UTILITY INFRASTRUCTURE SERVICES

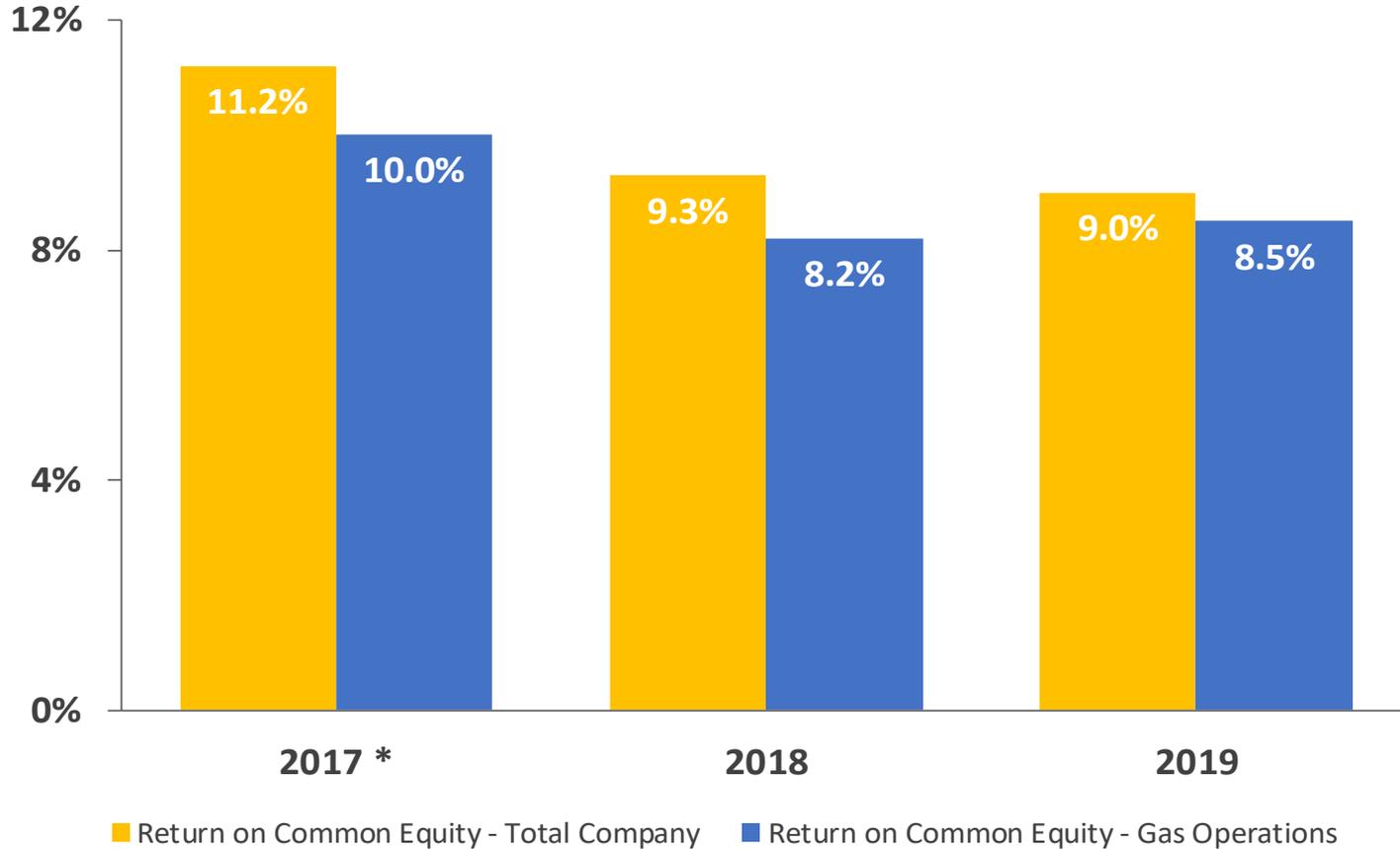
#	Revenue as % of Total <sup>(1)</sup>	Revenue \$ in millions	Relationship Length (Years)	Total Contract Length (Years)
1	12.4%	\$217	42	6
2	9.1%	\$189	35	6
3	6.4%	\$112	24	7
4	5.8%	\$102	25	9
5	5.7%	\$100	16	5
6	5.4%	\$94	13	5
7	4.7%	\$82	19	5
8	4.6%	\$80	43	5
9	3.9%	\$68	20	5
10	3.8%	\$66	12	8
11	3.7%	\$64	25	10
12	3.0%	\$52	31	8
13	2.6%	\$46	6	4
14	2.5%	\$44	5	4
15	2.5%	\$43	5	2
16	2.3%	\$40	52	3
17	1.9%	\$33	9	5
18	1.7%	\$30	21	4
19	1.0%	\$17	4	3
20	1.0%	\$17	4	3
<b>Total – Average (Weighted Average)</b>		\$1,466	20 (25)	5 (6)

(1) Year ended December 31, 2019



# RETURN ON COMMON EQUITY

YEAR ENDED DECEMBER 31,



\*Returns for Total Company and Gas Operations are reflective of non-recurring tax benefits of \$20 million and \$8 million, respectively.

# CREDIT RATINGS

## Investment Grade Ratings

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### Southwest Gas Holdings, Inc.

	Moody's	S&P	Fitch
Issuer Rating	Baa1	BBB+	BBB+
Outlook	Negative	Negative	Stable

### Southwest Gas Corporation

	Moody's	S&P	Fitch
Senior Unsecured	A3	A-	A
Outlook	Negative	Negative	Stable



# CONSOLIDATED CAPITAL STRUCTURE

## (IN MILLIONS)

<b>Capitalization at December 31,</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Equity <sup>1</sup>	\$ 1,608	\$ 1,684	\$ 1,812	\$ 2,333	\$ 2,590
Long-Term Debt <sup>2</sup>	1,571	1,600	1,824	2,141	2,464
Total Permanent Capital	<u>\$ 3,179</u>	<u>\$ 3,284</u>	<u>\$ 3,636</u>	<u>\$ 4,474</u>	<u>\$ 5,054</u>
<b>Capitalization ratios</b>					
Equity <sup>1</sup>	50.6%	51.3%	49.8%	52.2%	51.3%
Long-Term Debt <sup>2</sup>	49.4%	48.7%	50.2%	47.8%	48.7%
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, if applicable.

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



# NON-GAAP MEASURES

**Non-GAAP Measures** – Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Gas cost is a tracked cost, which is passed through to customers without markup under purchased gas adjustment (“PGA”) mechanisms, impacting revenues and net cost of gas sold on a dollar-for-dollar basis, thereby having no impact on Southwest’s profitability. Therefore, management routinely uses operating margin, defined as operating revenues less the net cost of gas sold, in its analysis of Southwest’s financial performance. Operating margin also forms a basis for Southwest’s various regulatory decoupling mechanisms. Operating margin is not, however, specifically defined in accounting principles generally accepted in the United States (“U.S. GAAP”) and is considered a non-GAAP measure. Management believes supplying information regarding operating margin provides investors and other interested parties with useful and relevant information to analyze Southwest’s financial performance in a rate-regulated environment.

## ***Reconciliation of Revenue to Operating Margin (Non-GAAP measure)***

	Year ended December 31,	
	2019	2018
	(In thousands)	
<b><u>Natural Gas Operations</u></b>		
Gas operating revenue	\$ 1,368,939	\$ 1,357,728
Less: Net cost of gas sold	385,164	419,388
Operating margin	<u>\$ 983,775</u>	<u>\$ 938,340</u>