**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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| In the Matter of the Application of Southwest Gas Corporation (U 905 G) for Approval of Program Years 2007-2008 Low-Income Assistance Program Budgets | Application 06-06-_____ |

# APPLICATION OF SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF PROGRAM YEARS 2007-2008 LOW-INCOME ASSISTANCE PROGRAM BUDGETS

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May 31, 2006

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**APPLICATION OF SOUTHWEST GAS CORPORATION**
**(U 905 G)**
**FOR APPROVAL OF PROGRAM YEARS 2007-2008**
**LOW-INCOME ASSISTANCE PROGRAM BUDGETS**

Southwest Gas Corporation (Southwest or the Company) respectfully applies for approval of its recommended Program Years (PY) 2007-2008 Low-Income Assistance program budgets for its northern and southern California rate jurisdictions' California Alternate Rates for Energy (CARE) and Low-Income Energy Efficiency (LIEE) Programs. This application is made in accordance with Ordering Paragraph 6 of the California Public Utilities Commission's (CPUC) Decision (D.) 05-07-014.

**Overview of the Application**

Southwest has two distinct service territories in California (northern and southern), serving approximately 170,000 customers statewide. Southwest's northern service area grew in 2005, when the Company acquired Avista Corporation's (Avista) natural gas assets in South Lake Tahoe California (D. 05-03-010, dated March 17, 2005). On April 29, 2005, Southwest consummated the Avista acquisition and began serving customers in the South Lake Tahoe area. Southwest filed Advice Letter No. 760 on May 10, 2006, to complete the integration of Southwest's Northern California Public Purpose Programs (PPP or Programs), with its recently acquired South Lake Tahoe District Programs. In D. 05-07-014, issued in Southwest's Application 04-07-002, the Commission stated:

> For the time being, Southwest Gas intends to continue the current program structure of Avista's CARE and Low-Income Energy Efficiency Programs. When current program contracts expire, Southwest may integrate Avista's current California Alternate Rates for Energy Program or Low-Income Energy Efficiency Program or both into Southwest's current programs.[1]

Furthermore, with the approval of Advice Letter No. 748-A, effective January 1, 2006, Southwest combined the funding of its northern California and South Lake Tahoe Programs and implemented a single PPP surcharge applicable to both areas.

Southwest is requesting a total of $10,023,330 for each year of the PY 2007-2008 Low-Income Assistance programs: $8,943,330 for CARE activities ($8,388,903 for Southwest's Southern California Division and $554,427 for Southwest's Northern California Division) and $1,080,000 for LIEE activities ($870,750 for Southwest's Southern California Division and $209,250 for Southwest's Northern California Division). Southwest plans to continue its CARE discount rate and LIEE weatherization program for PY 2007-2008. The details of these proposals are set forth in the Tables of Appendix 1 to this Application.

Pursuant to D.04-08-010, Southwest is required to file an advice letter with its proposed public purpose program (PPP) surcharges by October 31 of each year, with a requested effective date of January 1 the following year. Southwest has calculated illustrative PPP surcharges to recover its recommended PY 2007-2008 low-income assistance program expenses, and estimated 2007 CARE program benefits using the 2006 Test Year sales forecast and Attrition Year rates adopted by the Commission in Resolution G-3385. The resulting projected 2007 PPP surcharges are $0.12359 and $0.02020 per therm in Southwest's Southern and Northern California Divisions, respectively.

[1] p. 7, Opinion Approving Low-Income Energy Efficiency and California Alternate Rates for Energy (CARE) Programs for 2005 for PacifiCorp, Southwest Gas Corporation, Sierra Pacific Power Company, Avista Corporation, Southern California Water Company (Bear Valley Electric Service), Alpine Natural Gas Operating Company and West Coast Gas Company.

As discussed further within this application, the *Winter Initiative* affected Southwest differently from the other Small Multi-Jurisdictional Utilities (SMJU). The *Winter Initiative* was approved on October 27, 2005 (D. 05-10-044), in response to high natural gas prices and the impact of those rising prices on consumers, especially low-income customers. Southwest was the only SMJU to be included in the *Winter Initiative*, along with the large Investor-Owned Utilities (IOU). The *Winter Initiative* began on November 1, 2005, and continued through April 30, 2006.

## 2007-2008 Low-Income Assistance Program Plans

In 2007, Southwest will enter its thirtieth year of commitment to energy conservation activities in California. As part of that commitment, Southwest will continue to provide energy-efficiency assistance to low-income residential customers. In addition, Southwest will continue to provide customers with information and advice concerning the wise and efficient use of energy, along with the promotion of the CARE discount rate. The total requested expenditures for these activities in each year of PY 2007-2008 are shown in Tables 1 and 2 of Appendix 1. The low-income assistance activities listed below describe Southwest's proposed plans for PY 2007-2008.

## CARE

CARE is an income-qualified rate program that provides eligible customers with a discount from their otherwise applicable sales rates for natural gas service. Specifically, for Southwest, this program provides a 20 percent monthly bill discount to eligible California customers whose qualifying household income does not exceed 200 percent of the Federal Poverty Income level (FPI). Prior to the *Winter Initiative*, income qualifications were set at 175 percent of the FPI level.[2] Previously, Southwest's income guidelines matched the

[2] As communicated by the CPUC annually per Resolution E-3524, adopted on February 19, 1998.

SMJU's at the 175 percent level; however, because Southwest was the only SMJU included in the *Winter Initiative*, the Company's CARE guidelines are no longer the same as the other SMJUs. Due to this difference, Southwest's electronic CARE data shares will halt with Sierra Pacific Power Company (SPPC) and Bear Valley Electric Services (BVES). Southwest plans to continue electronically sharing data with Southern California Edison, since the utilities are both mandated to follow the 200 percent guidelines.

**LIEE**

The LIEE program is focused on increasing the energy efficiency and safety in the homes of income-qualified customers. LIEE provides long-term energy savings, particularly for space heating and cooling. Before the *Winter Initiative* began in November 2005, the income guidelines for LIEE were the same as the CARE program (175 percent), except for elderly and handicapped customers who could qualify for assistance at up to 200 percent of the FPI level. Since Southwest coordinates with the electric utilities in its service areas for the LIEE program, the *Winter Initiative* partially recognized Southwest's need to match the other utilities' income guidelines. Southwest's guidelines remained at the 175 percent level, matching all of the SMJUs, including BVES and SPPC. Unfortunately, Southwest no longer matches the income guidelines of Southern California Edison (SCE), which is the electric partner in the Southern California High Desert area. The majority of Southwest's California customers live in this area. Southwest recommends its income guidelines for the LIEE program match with SCE.

In the past, CARE customers were automatically income-qualified for Southwest's LIEE program, since the income guidelines were the same for each program. This is no longer true due to the *Winter Initiative* and requires additional documentation to receive LIEE services.

As in prior years, Southwest plans to contract with Richard Heath and Associates (RHA), who sub-contracts with Project Go, Inc., the community-based organization that provides the Company's northern California service area with various program services. The Community Action Partnership of San Bernardino County (CAPSBC) is contracted for the southern California service area. The services these community-based organizations provide include outreach and assessment, in-home education, scheduling, installation, and reporting of program results.

Southwest's LIEE program budget in Table 2 reflects estimated costs by subcategory; however, funds may be shifted between categories, as needed, to best utilize the total LIEE budget.[3]

**Weatherization**

Weatherization is the main component of the LIEE program, which includes installing home weatherization measures to increase energy efficiency for customers who own or rent a residence served by Southwest. This, in turn, provides customers with long-term energy savings, lower utility bills, and increased safety and comfort. Available weatherization measures may include insulation, caulking, weatherstripping, water heater blankets, water-restricting devices, and minor home repair, such as replacement of broken windows. Approximately 725 homes are estimated to be weatherized with the requested budget of $945,000, based on currently approved measures, as set forth in the California Conventional/Mobile Home Weatherization Installation Standards (WIS) Manual. If new measures are added to the WIS Manual during PY 2007 - 2008, Southwest will review its existing budget levels and may submit a filing to augment its approved budget.

[3] Per Decision 03-03-007, Conclusions of Law, paragraph number 11, "… SMJUs may shift funding among the LIEE budget categories of Weatherization, Energy Efficiency Measures (i.e. appliance replacement) and Energy Efficiency Education as appropriate, to meet the needs of their low-income customers."

The LIEE program also assists customers with appliance repair/replacement, when applicable, during the weatherization process. Water heaters and furnaces may be repaired or replaced in owner-occupied households of income-qualified customers at no cost to the clients. Southwest adheres to the rules and regulations outlined in the California Statewide Policy and Procedures (P&P) Manual and WIS Manual when replacing or repairing water heaters and furnaces. These units must be repaired if the cost of repairing the unit is less than 50 percent of the replacement cost. In addition to following the procedures in the manuals mentioned above, the weatherization work funded by Southwest must also comply with local city, county and state building codes.

Inspections are conducted to ensure safety and quality control in the installation of measures and minor home repairs. Southwest contracts with RHA to complete the LIEE weatherization inspections in both northern and southern California. Post-installation inspections are required for all ceiling insulation and furnace repair/replacement jobs. As noted in the Section 8.4.3 of the P&P, random inspections are conducted for a sample of dwelling units. The sample depends on the contractor's pass rates and total number of units weatherized.

A new LIEE program requirement was implemented in 2004, requiring natural gas appliance testing (NGAT). Combustion appliance testing is conducted for all homes that receive infiltration measures and that have at least one natural gas appliance affecting the living space. In addition, furnace repair and replacement also require this test. Southwest worked closely with its contractors to implement this additional testing.

In-home energy education is another component of the LIEE program. Southwest educates its customers about energy savings and encourages them to make wise decisions concerning the safe and efficient use of energy. Energy education, while not measurable in specific terms, serves important functions. It creates awareness about conservation and informs participants about energy efficiency, along with reinforcing energy-saving practices.

## Customer Outreach

Southwest conducts outreach programs to encourage customer participation in both the CARE and LIEE programs. Outreach activities include, but are not limited to, enrollment incentives (capitation), targeted mailings, media, bill inserts, and joint utility data-sharing. Southwest attributes its progress toward the CARE participation levels established by the Commission to its outreach efforts. Southwest has joined with other California utilities to cooperatively administer and market the CARE and LIEE programs statewide. Southwest is requesting a total of $100,000 ($95,000 for CARE and $5,000 for LIEE) annually for outreach activities. CARE and LIEE outreach funding are leveraged together, when applicable.

## Measurement and Evaluation

Southwest will monitor the progress of these programs by tracking the number of participants, number and type of measures installed at each residence, estimated energy savings, and program costs. Programs are evaluated to determine the factors that affect a program's success, determine that installation procedures are appropriate, and determine whether installations/inspections are performed in a timely manner. In addition, Southwest assesses the effectiveness of program outreach activities to determine whether the appropriate promotional tools are being used.

## Reporting Requirements

Pursuant to the June 24, 2004, Scoping Memo of Assigned Commissioner Carl W. Wood and Administrative Law Judge Sarah R. Thomas, Southwest conforms to the accounting and reporting requirements as set forth in the *Second Energy Division Workshop Report on the Review of the Accounting and Reporting Requirements for the*

*California Alternate Rates for Energy (CARE)and Low Income Energy Efficiency (LIEE) Programs of the Small and Multi-Jurisdictional Utilities.* Any costs associated with Southwest's CARE and LIEE Programs are tracked through its two-way and one-way balancing accounts, respectively.

**2004 and 2005 Low-Income Assistance Program Achievements**

The following paragraphs summarize the program results (see Appendix 1, Tables 3A, 3B, 4A and 4B) of the 2004 and 2005 Program Years for the low-income assistance programs funded by the PPP surcharges. Southwest is only reporting Avista's South Lake Tahoe information for 2005, since it did not acquire Avista's natural gas assets until April 2005.

**CARE**

In Decisions 03-03-007 and 05-07-014, rendered in A.02-07-009, et al. and in A.04-06-038, et al., respectively, the Commission adopted PY 2003, 2004 and 2005 participation targets for Southwest's CARE Program, based on customers with incomes not exceeding 175 percent of the FPI guidelines. These targets, along with Southwest's actual number of year-end participating CARE customers, are shown in the following table.

| CARE Penetration Rate Targets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Adopted in D.03-03-007 | | | | | | Adopted in D.05-07-014 | | |
| 2003 Target | 2003 Projected Enrolled | 2003 Enrolled at 12/31/03 | 2004 Target | 2004 Projected Enrolled | 2004 Enrolled at 12/31/04 | 2005 Target | 2005 Projected Enrolled | 2005 Enrolled at 12/31/05 |
| 91% | 22,936 | 21,634 | 93% | 23,440 | 24,415 | 85% | 27,866 | 30,859 |

As discussed earlier, the Commission's *Winter Initiative* increased the CARE income qualifications to 200 percent of the FPI guidelines effective November 1, 2005, as well as directed the respondent utilities to implement aggressive outreach efforts. As a result of these efforts, Southwest experienced a large increase in its number of CARE Program participants in November and December 2005, exceeding the adopted PY 2005 penetration target of 85 percent, or 27,866, of the total estimated eligible of 32,783. Southwest estimates that its CARE Program participants will increase to approximately 38,800 by December 31, 2006. For Program Years 2007 and 2008, the following table illustrates Southwest's estimated eligible CARE Program participants and proposed penetration targets based on the new CARE income qualifications.

| 2007 | | | | | |
|---|---|---|---|---|---|
| **Total Projected Residential Customers** | **Total Primary Residential Customers** | **Estimated Customers Eligible for CARE @ 200% FPI** | **Target Penetration Rate** | **Projected Enrolled at 12/31/07** | **Proposed Additions from 12/31/06** |
| **176,314** | **152,336** | **47,156** | **93%** | **43,855** | **5,055** |

| 2008 | | | | | |
|---|---|---|---|---|---|
| **Total Projected Residential Customers** | **Total Primary Residential Customers** | **Estimated Customers Eligible for CARE @ 200% FPI** | **Target Penetration Rate** | **Projected Enrolled at 12/31/08** | **Proposed Additions from 12/31/07** |
| **182,945** | **158,535** | **49,279** | **95%** | **46,815** | **2,960** |

Southwest was authorized to spend $97,714 on CARE outreach in 2004, and $77,600 in 2005. A total of $59,086 was spent in 2004, and $63,163 in 2005, on a variety of outreach efforts, including CARE capitation, targeted mailings, posters, brochures, community events, data-sharing with overlapping electric utilities, and program promotion via Southwest's website and on-hold messages. Outreach materials are translated into Spanish, when applicable. In addition, Southwest revised its CARE application in 2005 to be more customer-friendly and easier to read. The new format is modeled after Southern California Edison's application. Southwest also began enrolling customers on CARE via its website, where information is available in English, Spanish and large print (per D. 05-07-014).

Southwest maintained separate accounting and reporting for its northern California and South Lake Tahoe programs during PY 2005. Avista (the previous owner/operator of the South Lake Tahoe service area) had an approved budget of $18,800 for CARE outreach. Southwest, however,  absorbed the majority of the outreach costs under its budget, since the same outreach materials were used for both areas.

As ordered in D. 05-07-014, Southwest planned to implement automated calling for CARE recertification in the fall of 2005. This effort was suspended due to the *Winter Initiative,* which was effective through April 30, 2006. CARE re-certifications began again on May 1, 2006. Automated reminder calls are scheduled to begin in July 2006, and will be made to CARE customers who have been sent two reminder letters to re-certify for the CARE program, but have failed to respond.

Southwest also focused on moving from manual income verification to an automated random income verification process. This initiative was also planned for launch in the fall of 2005, but was implemented in May 2006 instead, also due to the *Winter Initiative*.

Southwest expanded the use of source codes on its CARE application in order to track the newly required reporting information for the CPUC. The source codes track information for various outreach initiatives and re-certifications.

Southwest has always administered the CARE program in-house. Avista outsourced its CARE program. When Avista's contract with El Dorado Community Services expired in August of 2005, Southwest did not renew the contract and began processing enrollments and verifications utilizing its existing systems for the South Lake Tahoe service area, as well.

**<u>LIEE</u>**

Southwest had an approved LIEE budget of $999,677 in 2004, and $1,064,101 in 2005. Those amounts were recoverable through the PPP Surcharge. The LIEE Program provided assistance to 844 homes in 2004, and 738 homes in 2005. All of those homes were treated and the majority was weatherized. The number of homes weatherized for 2004 LIEE budget in 2004, and $754,937 of the approved budget was spent in 2005. The rising costs of material, labor, and mileage, in addition to the newly required testing protocols, increased the average amount spent per home in 2005. The remaining funds of $204,101 from 2004 were carried over to the 2005 budget, and the remaining $309,164 from the 2005 budget was carried over to 2006 (see Tables 4A and 4B), as directed by D.03-03-007.[4]

Avista's approved LIEE budget for PY 2005 was $81,980. Southwest spent the entire budget and treated/weatherized 53 homes in South Lake Tahoe.

Southwest experienced some difficulties in spending its entire budget in the northern California service area due to the demographics of North Lake Tahoe. The area is considered high-income, which makes it extremely difficult to find income-qualified customers to participate in the program. As referenced in Advice Letter 760, the consolidation of the northern California and South Lake Tahoe programs will allow Southwest to more readily direct funds and assist customers in need of the program benefits. There is a greater need for LIEE in South Lake Tahoe, due to it being the area where most service industry employees reside in Tahoe. There is currently a waiting list for LIEE assistance in the South Lake Tahoe area. In addition, due to the extreme cold climate of the area, weatherization work cannot be completed year-round. Project Go, Inc., which is based in Placerville (approximately 90 miles away from Lake Tahoe), is the closest community-based organization in the vicinity that is able to perform the weatherization work.

In southern California, Southwest's LIEE contractor, the CAPSBC, is also a contractor for Southern California Edison and Southern California Gas Company. These utilities have much larger customer-bases and LIEE budgets than Southwest. The CAPSBC has limited crews and outreach workers available for the utility and state (Low-Income Home Energy Assistance Program - LIHEAP) programs. The agency has to be cautious

[4] Per Decision 03-03-007, Conclusions of Law, paragraph number 27, "Requiring the SMJUs to carry over any under-expenditures in the LIEE program in a given year to augment the next year's program budget

when hiring additional crews due to the uncertainty of program funding levels from year-to-year, to avoid having to lay-off employees. In addition, in-depth training is required before new crew members are able to enter the field.

Promotion and outreach of the LIEE program was leveraged with the CARE program, when applicable. Outreach efforts for LIEE during 2004-2005 included targeted mailings, posters, brochures, community events, and program promotion via Southwest's website and on-hold messages. Outreach materials are available in English, Spanish and large print (when applicable).

With RHA's assistance, Southwest focused its compliance efforts on the in-home education requirements, as outlined in the P & P Manual, during 2004 and 2005. Various forms, brochures and checklists were created to educate customers about energy usage, ways to conserve energy, appliance safety, how to read their utility bill and the procedures used to conduct the NGAT. In-home education was provided to all homes serviced under the LIEE program. In addition, Southwest held energy education workshops in 2004. As in 2003, these workshops did not generate the expected participation, nor were they cost-effective; therefore, after discussions with the Energy Division, these workshops were terminated for PY 2005 and beyond.

## Recovery of Low-Income Assistance Program Costs

Low-income assistance program expenses are recovered via Southwest's PPP surcharges. Southwest has calculated illustrative PPP Surcharges for its southern and northern California rate jurisdictions as part of this application. The CARE component of the

PPP Surcharge is calculated based on 2007 forecasted CARE and Agricultural Employee

is consistent with current Commission policy for the larger utilities."

Housing and Nonprofit Group Living Facility customers and volumes adopted in D.04-03-034, and Southwest's estimated 2006 Attrition Year revenue requirement. Southwest's PPP Surcharges also include components to amortize the amounts in Southwest's CARE Balancing Accounts as of December 31, 2005. The LIEE component of Southwest's PPP Surcharges is based on the PY 2007-2008 LIEE expenses requested in this application.

Southwest respectfully requests that it be allowed to update the calculation of its 2007 PPP surcharges at the time it submits its 2007 Attrition Year rate changes authorized in D.04-03-034 to reflect the most current amounts in the CARE Balancing Accounts, its actual 2007 Attrition Year rates, and any changes to the PY 2007-2008 LIEE program year costs ultimately authorized by the Commission.

## **Categorization of Filing**

Pursuant to Rule 6(a)(1) of the Commission's Rules of Practice and Procedure, "ratesetting" is the proposed category for this filing. Hearings on this application are not necessary.

## **Proposed Procedural Calendar**

Southwest proposes the following procedural calendar to ensure PY 2007-2008 program budgets are approved prior to January 1, 2007:

| | |
|---|---|
| June 1, 2006 | Application filed |
| July 3, 2006 | Protests/responses to application due |
| To Be Determined | Energy Division Workshop (if applicable) |
| To Be Determined | Workshop Report (if applicable) |
| To Be Determined | ALJ proposed decision |
| To Be Determined | Comments on proposed decision |
| To Be Determined | Reply comments on proposed |

| | |
|---|---|
| | decision |
| To Be Determined | Issuance of final decision |
| November 2006 | Attrition Filing |

**Applicant**

This application is filed pursuant to the Public Utilities Code ("PU Code"), and the Commission Rules of Practice and Procedure ("Rules").

Southwest is a corporation organized and existing under the laws of the State of California. Southwest is a natural gas corporation subject to the jurisdiction of the Commission and provides natural gas service as a public utility in southern and northern California. Southwest also provides the intrastate transmission, distribution, and sale of natural gas as a public utility in certain portions of Nevada and Arizona. A wholly-owned subsidiary of Southwest, Paiute Pipeline Company, operates an interstate pipeline system in northern Nevada, subject to the jurisdiction of the Federal Energy Regulatory Commission.

A copy of Southwest's current Articles of Incorporation, as amended and restated, certified by the California Secretary of State, was filed with the Commission as Exhibit C to A.90-05-030 and is hereby incorporated in this Application by this reference.

In accordance with Rule 23 (a), (e), (f) and (l), Southwest's first quarter 2006 SEC Form 10-Q, which contains Southwest's most current balance sheet and income statement, is attached in Appendix 2, along with a copy of Southwest's 2005 proxy statement. Southwest's summary of earnings on a depreciated rate base is included in Southwest's most recent general rate case, A.02-02-012, and is hereby incorporated in this Application by this reference. Southwest's total utility earnings, as well as its earnings for Northern and Southern California District Operations, are included in A.02-02-012, and are hereby incorporated in this Application by this reference. This application only reflects and passes through to customers costs to Southwest for the proposed 2007-2008 low-income assistance program year expenses and recovery of prior balancing account amounts related to the low-income assistance programs mandated by the Commission.

The exact name of the applicant is Southwest Gas Corporation.

The location of Southwest's principal place of business is 5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002. Communications regarding this application should be addressed to:


| | | |
|---|---|---|
| John P. Hester<br>Senior Vice-President/<br>Regulatory Affairs & Energy Resources<br>Southwest Gas Corporation<br>P. O. Box 98510<br>Las Vegas, Nevada 89193-8510<br>john.hester@swgas.com | and | Bridget B. Jensen<br>Associate General Counsel/Legal Affairs<br>Southwest Gas Corporation<br>P. O. Box 98510<br>Las Vegas, Nevada 89193-8510<br>bridget.jensen@swgas.com |


## **Noticing of Application**

Rule 24 of the Commission's Rules of Practice and Procedure, and Public Utilities Code Section 454, require that any increase in rates or charges be noticed to individual customers of the utility. Section 454 states:

> This notice requirement does not apply to any rate change proposed by a corporation pursuant to an advice letter submitted to the commission in accordance with commission procedures for this means of submission. The procedures for advice letters may include provision for notice to customers or subscribers on a case-by-case basis, as determined by the commission.

Although Southwest's proposed PPP surcharge amounts for 2007 are estimated to increase for both northern and southern California, the rates would not change until the November Attrition Advice Letter filing (submitted in compliance with D.04-08-010 on October 30) and the net overall affect on effective sales rates will not be known until that time. Therefore, separate noticing of this low-income programs budget request is not required.

**Request for Relief**

For all the reasons set forth in this Application, Southwest respectfully requests that the Commission issue a decision in this Application granting the following relief:

(1) Approve the requested funding levels for low-income assistance programs for PY 2007-2008;

(2) Raise LIEE guidelines from 175 percent of the Federal Poverty Income level to match CARE at 200 percent.

(3) Any further relief the Commission determines to be appropriate.

Dated this 31 day of May, 2006 at Las Vegas, Nevada.

SOUTHWEST GAS CORPORATION

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## VERIFICATION

STATE OF NEVADA )
) ss.
COUNTY OF CLARK )

I, JOHN P. HESTER, having been first duly sworn, make the following statements under oath:

1. My position with Southwest Gas Corporation is Senior Vice-President/ Regulatory Affairs & Energy Resources;
2. I have read the foregoing Application of Southwest Gas Corporation for Approval of Program Years 2007-2008 Low-Income Assistance Program Budgets; and
3. The contents of the foregoing Application are true to the best of my knowledge, except as to matters that are stated on information or belief, and, as to those matters, I believe them to be true.

Executed this 31 day of May, 2006 at Las Vegas, Nevada.

John P Hester

John P. Hester
Senior Vice-President/Regulatory Affairs
& Energy Resources

SUBSCRIBED AND SWORN to before me
this 31 day of May, 2006.

Jackie Dee Allsop

Notary Public

JACKIE DEE ALLSOP
Notary Public, State of Nevada
Appointment No. 93-1388-1
My Appt. Expires Apr 21, 2009

## CERTIFICATE OF SERVICE

I hereby certify that I have served by mail, or electronic mail, a true copy of the **APPLICATION OF SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF PROGRAM YEARS 2007-2008 LOW-INCOME ASSISTANCE PROGRAM BUDGETS** on all parties or their attorneys of record, shown on the attached service list this 31 day of May, 2006 at Las Vegas, Nevada.

An employee of Southwest Gas

# TAB 1

**APPENDIX 1**
**LIST OF TABLES**

**TABLE 1**
CARE ESTIMATED ANNUAL BUDGET PER YEAR 2007 & 2008

**TABLE 2**
LIEE ESTIMATED ANNUAL BUDGET PER YEAR 2007 & 2008

**TABLE 3A**
CARE HISTORICAL BUDGET AND COSTS 2004

**TABLE 3B**
CARE HISTORICAL BUDGET AND COSTS 2005

**TABLE 4A**
LIEE HISTORICAL BUDGET AND COSTS 2004

**TABLE 5A**
LIEE HISTORICAL BUDGET AND COSTS 2005

**TABLE 1**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE)**
**ESTIMATED ANNUAL BUDGET PER YEAR 2007 & 2008**

| Line No. | Program | Northern California | Southern California | Total | Line No. |
|---|---|---|---|---|---|
| 1 | **Outreach** | $ 19,000 | $ 76,000 | $ 95,000 | 1 |
| 2 | **Processing/Certification/Verification** | $ 8,400 | $ 33,600 | $ 42,000 | 2 |
| 3 | **General** | $ 6,800 | $ 27,200 | $ 34,000 | 3 |
| 4 | **Benefits** [1] | $ 520,227 | $ 8,252,103 | $ 8,772,330 | 4 |
| 5 | **Total** | $ 554,427 | $ 8,388,903 | $ 8,943,330 | 5 |

[1] 2007 estimated program benefits.

**TABLE 2**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**LOW-INCOME ENERGY EFFICIENCY (LIEE)**
**ESTIMATED ANNUAL BUDGET PER YEAR 2007 & 2008**

| Line No. | Program | Northern California | Southern California | Total | Line No. |
|---|---|---|---|---|---|
| 1 | **Program Costs** [1] | | | | 1 |
| 2 | **Weatherization** | $ 189,000 | $ 756,000 | $ 945,000 | 2 |
| 3 | **Subtotal Program Costs** | **$ 189,000** | **$ 756,000** | **$ 945,000** | 3 |
| 4 | **Administrative Costs** | | | | 4 |
| 5 | **Outreach** | $ 750 | $ 4,250 | $ 5,000 | 5 |
| 6 | **Inspections** | $ 6,000 | $ 34,000 | $ 40,000 | 6 |
| 7 | **General** | $ 13,500 | $ 76,500 | $ 90,000 | 7 |
| 8 | **Subtotal Administrative Costs** | **$ 20,250** | **$ 114,750** | **$ 135,000** | 8 |
| 9 | **Total** [2] | **$ 209,250** | **$ 870,750** | **$ 1,080,000** | 9 |

[1] SWG will conduct the LIEE weatherization program, which also incorporates in-home education and appliance replacement (furnace and water heater), when applicable, for income-qualified customers. Funds will be spent, as needed, between weatherization, education and appliance replacement to best utilitze the total LIEE budget.

[2] The 2007-2008 LIEE proposed budget does not include carry-over under-expenditures from 2005, totaling $309,164, as referenced in Table 4B. Per D.03-03-007, Findings of Fact, paragraph number 27, “Requiring the SMJUs to carry-over any under-expenditures in the LIEE program in a given year to augment the next year’s program budget is consistent with current Commission policy for the larger utilities." The 2007-2008 proposed budget of $1,080,000, combined with the carry-over amount of $309,164, totals $1,389,164 for PY 2007.

**TABLE 3A**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE)**
**HISTORICAL BUDGETS AND COSTS 2004[1]**

| Line No. | Program | Approved Budget | Costs | Line No. |
|---|---|---|---|---|
| 1 | **Outreach** | $ 97,714 | $ 59,086 | 1 |
| 2 | **Processing/Certification/Verification** | $ 20,402 | $ 19,146 | 2 |
| 3 | **General** | $ 5,100 | $ 22,092 | 3 |
| 4 | **Benefits** | $ 3,332,600 | $ 2,704,297 | 4 |
| 5 | **Total** | **$ 3,455,816** | **$ 2,804,621** | 5 |

[1] By Decision (D.) 05-03-010, dated March 17, 2005, the CPUC authorized the acquistion of Avista Corporation's natural gas assets located in California by Southwest. On April 29, 2005, Southwest consumated the acquisition of Avista's natural gas assets and began serving customers in the South Lake Tahoe area. Therefore, Southwest is unable to report results for South Lake Tahoe for 2004.

**TABLE 3B**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**CALIFORNIA ALTERNATE RATES FOR ENERGY (CARE)**
**HISTORICAL BUDGETS AND COSTS 2005**[1]

| Line No. | NORTHERN AND SOUTHERN | Approved Budget | | Costs | | Line No. |
|---|---|---|---|---|---|---|
| 1 | **Outreach** | $ | 77,600 | $ | 63,163 | 1 |
| 2 | **Processing/Certification/Verification** | $ | 29,600 | $ | 48,744 | 2 |
| 3 | **General** | $ | 17,600 | $ | 6,685 | 3 |
| 4 | **Benefits** | $ | 3,756,690 | $ | 3,675,152 | 4 |
| 5 | **Total** | **$** | **3,881,490** | **$** | **3,793,744** | 5 |
| | **SOUTH LAKE TAHOE** | **Approved Budget** | | **Costs** | | |
| 6 | **Outreach** | $ | 18,800 | $ | 61 | 6 |
| 7 | **Processing/Certification/Verification** | $ | 12,300 | $ | 9,795 | 7 |
| 8 | **General** | $ | 15,500 | $ | - | 8 |
| 9 | **Benefits** | $ | 185,101 | $ | 198,698 | 9 |
| 10 | **Total** | **$** | **231,701** | **$** | **208,554** | 10 |

[1] By Decision (D.) 05-03-010, dated March 17, 2005, the CPUC authorized the acquistion of Avista Corporation's natural gas assets located in California by Southwest. On April 29, 2005, Southwest consumated the acquisition of Avista's natural gas assets and began serving customers in the South Lake Tahoe area.

**TABLE 4A**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**LOW-INCOME ENERGY EFFICIENCY (LIEE)**
**HISTORICAL BUDGETS AND COSTS 2004**[1]

| Line No. | Program | Approved Budget[2] | Costs | Line No. |
|---|---|---|---|---|
| 1 | **Program Costs** | | | 1 |
| 2 | **Weatherization** | $ 639,200 | $ 525,661 | 2 |
| 3 | **Appliance Replacement** | 141,160 | 125,552 | 3 |
| 4 | **Education** | 38,000 | 33,363 | 4 |
| 5 | **Subtotal Program Costs** | **$818,360** | **$ 684,576** | 5 |
| 6 | **Administrative Costs** | | | 6 |
| 7 | **Outreach** | $ 20,000 | $ 4,264 | 7 |
| 8 | **Inspections** | 23,000 | 25,286 | 8 |
| 9 | **General** | 138,317 | 81,450 | 9 |
| 10 | **Subtotal Administrative Costs** | **$ 181,317** | **$ 111,000** | 10 |
| 11 | **Total** | **$ 999,677** | **$ 795,576** | 11 |
| 12 | **LIEE Carryover from 2004 to 2005**[3] | **$ 204,101** | | 12 |

[1] By Decision (D.) 05-03-010, dated March 17, 2005, the CPUC authorized the acquistion of Avista Corporation's natural gas assets located in California by Southwest. On April 29, 2005, Southwest consumated the acquisition of Avista's natural gas assets and began serving customers in the South Lake Tahoe area. Therefore, Southwest is unable to report results for South Lake Tahoe for 2004.

[2] In addition to the $936,560 approved in D. 03-12-016, under-expenditures totaling $63,117 ($50,000 weatherization, $3,000 education and $10,117 general) were carried over from 2003, as directed in D.03-03-007

[3] Per D.03-03-007, Findings of Fact, paragraph number 27, “Requiring the SMJUs to carry-over any under-expenditures $3,000 education and  $10,117 in a given year to augment the next year’s program budget is consistent with current Commission policy for the larger utilities.”

**TABLE 4B**
**SOUTHWEST GAS CORPORATION**
**CALIFORNIA**
**LOW-INCOME ENERGY EFFICIENCY (LIEE)**
**HISTORICAL BUDGETS AND COSTS 2005**

| Line No. | NORTHERN AND SOUTHERN | | Approved Budget[1] | | Costs | Line No. |
|---|---|---|---|---|---|---|
| 1 | **Program Costs** | | | | | 1 |
| 2 | **Weatherization** | $ | 578,539 | $ | 530,461 | 2 |
| 3 | **Appliance Replacement** | | 160,608 | | 67,397 | 3 |
| 4 | **Education** | | 36,637 | | 33,342 | 4 |
| 5 | **Subtotal Program Costs** | | **$775,784** | **$** | **631,201** | 5 |
| 6 | **Administrative Costs** | | | | | 6 |
| 7 | **Outreach** | $ | 35,736 | $ | 600 | 7 |
| 8 | **Inspections** | | 27,714 | | 50,452 | 8 |
| 9 | **General** | | 224,867 | | 72,685 | 9 |
| 10 | **Subtotal Administrative Costs** | **$** | **288,317** | **$** | **123,736** | 10 |
| 11 | **Total** | **$** | **1,064,101** | **$** | **754,937** | 11 |
| 12 | **LIEE Carryover from 2005 to 2006**[2] | **$** | **309,164** | | | 12 |

| Line No. | SOUTH LAKE TAHOE | | Approved Budget | | Costs | Line No. |
|---|---|---|---|---|---|---|
| 13 | **Program Costs** | | | | | 13 |
| 14 | **Weatherization** | $ | 67,972 | $ | 54,752 | 14 |
| 15 | **Appliance Replacement** | | 0 | | 19,165 | 15 |
| 16 | **Education** | | 4,800 | | 3,509 | 16 |
| 17 | **Subtotal Program Costs** | | **$72,772** | **$** | **77,426** | 17 |
| 18 | **Administrative Costs** | | | | | 18 |
| 19 | **Outreach** | $ | 2,000 | $ | 817 | 19 |
| 20 | **Inspections** | | 1,500 | | 0 | 20 |
| 21 | **General** | | 5,708 | | 3,737 | 21 |
| 22 | **Subtotal Administrative Costs** | **$** | **9,208** | **$** | **4,554** | 22 |
| 23 | **Total** | **$** | **81,980** | **$** | **81,980** | 23 |
| 24 | **LIEE Carryover from 2005 to 2006**[2] | **$** | **-** | | | 24 |

[1] In addition to the $860,000 approved in D.05-07-014, under-expenditures totaling $204,101 ($113,539 weatherization, $15,608 appliance replacement, $4,637 education, $15,736 outreach, -$2,286 inspections, and $56,867 general) were carried over from 2004 as directed inD.03-03-007. The amount overspent was deducted from outreach.

[2] Per D.03-03-007, Findings of Fact, paragraph number 27, “Requiring the SMJUs to carry-over any under-expenditures in a given year to augment the next year’s program budget is consistent with current Commission policy for the larger utilities.”

# TAB 2

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

# Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

**Commission File Number 1-7850**

# SOUTHWEST GAS CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| California<br>(State or other jurisdiction of incorporation or organization) | 88-0085720<br>(I.R.S. Employer Identification No.) |
| 5241 Spring Mountain Road<br>Post Office Box 98510<br>Las Vegas, Nevada<br>(Address of principal executive offices) | 89193-8510<br>(Zip Code) |

**Registrant's telephone number, including area code: (702) 876-7237**

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large accelerated filer X Accelerated filer __ Non-accelerated filer __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.
Common Stock, $1 Par Value, 40,052,735 shares as of May 3, 2006.

## PART I - FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

# SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)
(Unaudited)

| | MARCH 31, 2006 | DECEMBER 31, 2005 |
|---|---|---|
| **ASSETS** | | |
| Utility plant: | | |
| Gas plant | $ 3,572,357 | $ 3,516,587 |
| Less: accumulated depreciation | (1,105,827) | (1,083,900) |
| Acquisition adjustments, net | 2,128 | 2,173 |
| Construction work in progress | 45,723 | 54,287 |
| Net utility plant | 2,514,381 | 2,489,147 |
| Other property and investments | 119,845 | 118,094 |
| Current assets: | | |
| Cash and cash equivalents | 13,867 | 29,603 |
| Accounts receivable, net of allowances | 215,088 | 198,081 |
| Accrued utility revenue | 49,600 | 68,400 |
| Deferred purchased gas costs | 120,771 | 109,415 |
| Prepaids and other current assets | 69,749 | 137,161 |
| Total current assets | 469,075 | 542,660 |
| Deferred charges and other assets | 78,917 | 78,525 |
| Total assets | $ 3,182,218 | $ 3,228,426 |
| **CAPITALIZATION AND LIABILITIES** | | |
| Capitalization: | | |
| Common stock, $1 par (authorized - 45,000,000 shares; issued and outstanding - 39,772,880 and 39,328,291 shares) | $ 41,403 | $ 40,958 |
| Additional paid-in capital | 639,276 | 628,248 |
| Accumulated other comprehensive income (loss), net | (41,645) | (41,645) |
| Retained earnings | 159,567 | 123,574 |
| Total equity | 798,601 | 751,135 |
| Subordinated debentures due to Southwest Gas Capital II | 100,000 | 100,000 |
| Long-term debt, less current maturities | 1,229,078 | 1,224,898 |
| Total capitalization | 2,127,679 | 2,076,033 |
| Current liabilities: | | |
| Current maturities of long-term debt | 82,989 | 83,215 |
| Short-term debt | - | 24,000 |
| Accounts payable | 137,443 | 259,476 |
| Customer deposits | 58,720 | 57,552 |
| Accrued general taxes | 56,081 | 40,526 |
| Accrued interest | 21,699 | 22,472 |
| Deferred income taxes | 65,462 | 68,166 |
| Other current liabilities | 63,493 | 65,546 |
| Total current liabilities | 485,887 | 620,953 |
| Deferred income taxes and other credits: | | |
| Deferred income taxes and investment tax credits | 259,902 | 234,739 |
| Taxes payable | 9,313 | 7,551 |
| Accumulated removal costs | 110,000 | 105,000 |
| Other deferred credits | 189,437 | 184,150 |
| Total deferred income taxes and other credits | 568,652 | 531,440 |
| Total capitalization and liabilities | $ 3,182,218 | $ 3,228,426 |

The accompanying notes are an integral part of these statements.

# SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

| | THREE MONTHS ENDED MARCH 31, | | TWELVE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Operating revenues: | | | | |
| Gas operating revenues | $ 608,142 | $ 494,983 | $ 1,568,416 | $ 1,323,251 |
| Construction revenues | 68,799 | 47,897 | 279,928 | 223,289 |
| Total operating revenues | 676,941 | 542,880 | 1,848,344 | 1,546,540 |
| Operating expenses: | | | | |
| Net cost of gas sold | 397,497 | 303,927 | 921,701 | 713,095 |
| Operations and maintenance | 78,387 | 74,276 | 318,548 | 295,095 |
| Depreciation and amortization | 40,679 | 38,492 | 158,440 | 148,426 |
| Taxes other than income taxes | 10,617 | 10,314 | 39,343 | 38,074 |
| Construction expenses | 60,436 | 43,022 | 243,188 | 195,036 |
| Total operating expenses | 587,616 | 470,031 | 1,681,220 | 1,389,726 |
| Operating income | 89,325 | 72,849 | 167,124 | 156,814 |
| Other income and (expenses): | | | | |
| Net interest deductions | (22,250) | (20,033) | (84,821) | (80,071) |
| Net interest deductions on subordinated debentures | (1,931) | (1,931) | (7,723) | (7,725) |
| Other income (deductions) | 3,571 | 1,393 | 10,292 | 5,000 |
| Total other income and (expenses) | (20,610) | (20,571) | (82,252) | (82,796) |
| Income before income taxes | 68,715 | 52,278 | 84,872 | 74,018 |
| Income tax expense | 24,535 | 19,449 | 29,698 | 25,458 |
| Net income | $ 44,180 | $ 32,829 | $ 55,174 | $ 48,560 |
| Basic earnings per share | $ 1.12 | $ 0.88 | $ 1.42 | $ 1.35 |
| Diluted earnings per share | $ 1.11 | $ 0.88 | $ 1.41 | $ 1.34 |
| Dividends paid per share | $ 0.205 | $ 0.205 | $ 0.82 | $ 0.82 |
| Average number of common shares outstanding | 39,492 | 37,097 | 38,722 | 35,869 |
| Average shares outstanding (assuming dilution) | 39,847 | 37,390 | 39,073 | 36,161 |

The accompanying notes are an integral part of these statements.

# SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

| | THREE MONTHS ENDED MARCH 31, | | TWELVE MONTHS ENDED MARCH 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **CASH FLOW FROM OPERATING ACTIVITIES:** | | | | |
| Net income | $ 44,180 | $ 32,829 | $ 55,174 | $ 48,560 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 40,679 | 38,492 | 158,440 | 148,426 |
| Deferred income taxes | 22,459 | 14,635 | 2,310 | 29,594 |
| Changes in current assets and liabilities: | | | | |
| Accounts receivable, net of allowances | (17,007) | 26,758 | (63,981) | (21,766) |
| Accrued utility revenue | 18,800 | 27,500 | (7,718) | (6,000) |
| Deferred purchased gas costs | (11,356) | 8,074 | (45,295) | (18,391) |
| Accounts payable | (122,033) | (62,820) | 32,808 | 17,762 |
| Accrued taxes | 17,317 | 14,836 | 8,197 | 290 |
| Other current assets and liabilities | 65,699 | 36,492 | 6,207 | 10,045 |
| Other | (1,288) | (673) | 12,809 | 1,395 |
| Net cash provided by operating activities | 57,450 | 136,123 | 158,951 | 209,915 |
| **CASH FLOW FROM INVESTING ACTIVITIES:** | | | | |
| Construction expenditures and property additions | (65,202) | (50,075) | (309,496) | (301,666) |
| Other | 8,893 | 3,760 | 7,118 | 9,958 |
| Net cash used in investing activities | (56,309) | (46,315) | (302,378) | (291,708) |
| **CASH FLOW FROM FINANCING ACTIVITIES:** | | | | |
| Issuance of common stock, net | 11,473 | 11,447 | 64,162 | 64,684 |
| Dividends paid | (8,097) | (7,612) | (31,713) | (29,393) |
| Issuance of long-term debt, net | 19,050 | - | 164,306 | 147,135 |
| Retirement of long-term debt, net | (2,303) | (1,420) | (32,325) | (83,267) |
| Temporary changes in long-term debt | (13,000) | (150) | (12,850) | (150) |
| Change in short-term debt | (24,000) | (89,000) | (11,000) | (13,000) |
| Net cash provided by (used in) financing activities | (16,877) | (86,735) | 140,580 | 86,009 |
| Change in cash and cash equivalents | (15,736) | 3,073 | (2,847) | 4,216 |
| Cash at beginning of period | 29,603 | 13,641 | 16,714 | 12,498 |
| Cash at end of period | $ 13,867 | $ 16,714 | $ 13,867 | $ 16,714 |
| Supplemental information: | | | | |
| Interest paid, net of amounts capitalized | $ 23,948 | $ 22,834 | $ 87,579 | $ 82,806 |
| Income taxes paid (received), net | 67 | 112 | 5,932 | (12,587) |

The accompanying notes are an integral part of these statements.

**Note 1 - Summary of Significant Accounting Policies**

*Nature of Operations.* Southwest Gas Corporation (the "Company") is composed 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. The public utility rates, practices, facilities, and service territories of Southwest 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. Natural gas purchases and the timing of related recoveries can materially impact liquidity. Northern Pipeline Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

*Basis of Presentation.* The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The preparation of the condensed consolidated financial statements 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. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2005 Annual Report to Shareholders, which is incorporated by reference into the 2005 Form 10-K.

*Intercompany Transactions.* NPL recognizes revenues generated from contracts with Southwest (see **Note 3** below). Accounts receivable for these services were $6.5 million at March 31, 2006 and $8.2 million at December 31, 2005. The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation."

*Recently Issued Accounting Pronouncements.* In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies several other related issues. The provisions of SFAS No. 155 are effective for all financial instruments acquired or issued in the first fiscal year beginning after September 15, 2006. The Company has not evaluated what impact, if any, this standard will have on its financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The provisions of SFAS No. 156 are effective for the recognition and initial measurement of servicing assets and liabilities acquired or issued in the first fiscal year beginning after September 15, 2006. The Company has not evaluated what impact, if any, this standard will have on its financial position or results of operations.

*Components of Net Periodic Benefit Cost.* Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees. Southwest also provides postretirement benefits other than pensions ("PBOP") to its qualified retirees for health care, dental, and life insurance benefits.

**Components of Net Periodic Benefit Cost**

| | Qualified Retirement Plan | | | |
|---|---|---|---|---|
| | Period Ended March 31, | | | |
| | Three Months | | Twelve Months | |
| (Thousands of dollars) | 2006 | 2005 | 2006 | 2005 |
| Service cost | $ 4,071 | $ 3,947 | $ 15,911 | $ 14,289 |
| Interest cost | 6,701 | 6,332 | 25,696 | 24,076 |
| Expected return on plan assets | (7,652) | (7,388) | (29,817) | (28,438) |
| Amortization of prior service costs | (3) | (3) | (11) | 38 |
| Amortization of net (gain) loss | 1,338 | 613 | 3,178 | 613 |
| Net periodic benefit cost | $ 4,455 | $ 3,501 | $ 14,957 | $ 10,578 |

| | PBOP | | | |
|---|---|---|---|---|
| | Period Ended March 31, | | | |
| | Three Months | | Twelve Months | |
| (Thousands of dollars) | 2006 | 2005 | 2006 | 2005 |
| Service cost | $ 213 | $ 209 | $ 841 | $ 750 |
| Interest cost | 530 | 529 | 2,116 | 2,164 |
| Expected return on plan assets | (454) | (419) | (1,710) | (1,488) |
| Amortization of unrecognized transition obligation | 217 | 217 | 867 | 867 |
| Amortization of net (gain) loss | 42 | 34 | 144 | 194 |
| Net periodic benefit cost | $ 548 | $ 570 | $ 2,258 | $ 2,487 |

**Note 2 – Stock-Based Compensation**

*Stock-Based Compensation.* At March 31, 2006, the Company had two stock-based compensation plans, a stock option plan and a restricted stock plan. Prior to January 1, 2006, these plans were accounted for in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004) "Share-Based Payment", using the modified prospective transition method. Accordingly, financial information for prior periods has not been restated. The adoption of SFAS No. 123 (revised 2004) did not have a material impact on the Company's financial condition, results of operations, or cash flows. Under the modified prospective transition method, expense is recognized for any new awards granted after the effective date and for the unvested portion of awards granted prior to the effective date. Total stock-based compensation expense recognized in the condensed consolidated statements of income for the three months ended March 31, 2006 was $1.1 million, net of a related tax benefit of $772,000. The pro forma effects of recognizing the estimated fair value of stock-based compensation for periods prior to the adoption of SFAS No. 123 (revised 2004) is presented below (thousands of dollars, except per share amounts):

| | Period Ended March 31, | | |
|---|---|---|---|
| | Three Months | Twelve Months | |
| | 2005 | 2006 | 2005 |
| Net income, as reported | $ 32,829 | $ 55,174 | $ 48,560 |
| Add: | | | |
| Stock-based employee compensation expense included in reported net income, net of related tax benefits | 502 | 3,037 | 1,938 |
| Deduct: | | | |
| Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax benefits | (599) | (3,091) | (2,050) |
| Pro forma net income | $ 32,732 | $ 55,120 | $ 48,448 |
| Earnings per share: | | | |
| Basic - as reported | $ 0.88 | $ 1.42 | $ 1.35 |
| Basic - pro forma | 0.88 | 1.42 | 1.35 |
| Diluted - as reported | 0.88 | 1.41 | 1.34 |
| Diluted - pro forma | 0.88 | 1.41 | 1.34 |

Under the Company's stock-option 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 ten years. 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 Black-Scholes option pricing model in 2005 and the extended binomial option pricing model in 2004 and 2003. Information pertaining to option activity for the three months ended March 31, 2006 is as follows (number of options and aggregate intrinsic value in thousands):

| | Number of options | Weighted-average exercise price | Weighted-average remaining contractual life | Aggregate intrinsic value * |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 1,475 | $ 23.70 | | |
| Granted | - | - | | |
| Exercised | (45) | $ 22.21 | | $ 259 |
| Forfeited | - | - | | |
| Expired | - | - | | |
| Outstanding at March 31, 2006 | 1,430 | $ 23.74 | 7.0 Years | $ 6,128 |
| Exercisable at March 31, 2006 | 812 | $ 23.19 | 5.7 Years | $ 3,979 |

* The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The market value of Southwest Gas stock was $27.95 at March 31, 2006.

| | Options outstanding | | | Options exercisable | |
|---|---|---|---|---|---|
| Range of exercise price | Number outstanding | Weighted-average remaining contractual life | Weighted-average exercise price | Number exercisable | Weighted-average exercise price |
| $15.00 to $19.13 | 52 | 3.0 Years | $ 18.12 | 52 | $ 18.12 |
| $20.49 to $26.10 | 1,260 | 7.5 Years | $ 23.49 | 642 | $ 22.55 |
| $28.75 to $28.94 | 118 | 3.3 Years | $ 28.91 | 118 | $ 28.91 |
| | 1,430 | | | 812 | |

As of March 31, 2006, there was $1.3 million of total unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a period of 2.5 years. The total fair value of options vested during the first quarter of 2006 was $132,000. The Company received $1 million in cash from the exercise of options during the first quarter of 2006 and a corresponding tax benefit of $94,000 which was recorded in additional paid-in capital. The following table summarizes the status of the Company's nonvested options as of March 31, 2006.

| | Number of options | Weighted-average grant date fair value |
|---|---|---|
| Nonvested at the beginning of the year | 662 | $ 3.00 |
| Granted | - | - |
| Vested | (44) | $ 3.00 |
| Forfeited | - | - |
| Nonvested at March 31, 2006 | 618 | $ 3.00 |

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 performance shares (i.e., long-term incentive). The performance shares vest after three years from issuance and are subject to a final adjustment as determined by the Board of Directors. The following table summarizes the activity of this plan for the quarter ended March 31, 2006 (thousands of shares):

| | | |
|---|---|---|
| Nonvested performance shares at beginning of year | | 357 |
| Performance shares granted | | 88 |
| Performance shares forfeited | | - |
| Shares vested and issued* | | (116) |
| Nonvested performance shares at March 31, 2006 | | 329 |
| Average grant date fair value of awards granted this year | $ | 26.97 |

* Includes shares converted for taxes and retiree payouts.

**Note 3 – Segment Information**

The following tables list revenues from external customers, intersegment revenues, and segment net income (thousands of dollars):

| | Natural Gas Operations | Construction Services | Total |
|---|---|---|---|
| **Three months ended March 31, 2006** | | | |
| Revenues from external customers | $ 608,142 | $ 49,496 | $ 657,638 |
| Intersegment revenues | -- | 19,303 | 19,303 |
| Total | $ 608,142 | $ 68,799 | $ 676,941 |
| Segment net income | $ 42,077 | $ 2,103 | $ 44,180 |
| **Three months ended March 31, 2005** | | | |
| Revenues from external customers | $ 494,983 | $ 34,027 | $ 529,010 |
| Intersegment revenues | -- | 13,870 | 13,870 |
| Total | $ 494,983 | $ 47,897 | $ 542,880 |
| Segment net income | $ 32,386 | $ 443 | $ 32,829 |
| **Twelve months ended March 31, 2006** | | | |
| Revenues from external customers | $ 1,568,416 | $ 202,718 | $ 1,771,134 |
| Intersegment revenues | -- | 77,210 | 77,210 |
| Total | $ 1,568,416 | $ 279,928 | $ 1,848,344 |
| Segment net income | $ 43,361 | $ 11,813 | $ 55,174 |
| **Twelve months ended March 31, 2005** | | | |
| Revenues from external customers | $ 1,323,251 | $ 161,027 | $ 1,484,278 |
| Intersegment revenues | -- | 62,262 | 62,262 |
| Total | $ 1,323,251 | $ 223,289 | $ 1,546,540 |
| Segment net income | $ 40,184 | $ 8,376 | $ 48,560 |

**Note 4 – Comprehensive Income (Loss)**

| | Three Months Ended March 31, | | Twelve Months Ended March 31, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Net income | $ 44,180 | $ 32,829 | $ 55,174 | $ 48,560 |
| Additional minimum pension liability adjustment, net of $19 million and $6.5 million tax benefit | - | - | (30,753) | (10,892) |
| Comprehensive income | $ 44,180 | $ 32,829 | $ 24,421 | $ 37,668 |

The additional minimum pension liability adjustments noted above resulted from the measurement of pension obligations at December 31, 2005 and 2004. Adjustments, if any, are only made at each annual measurement date.

**Note 5 – Common Stock**

The Company has a universal shelf registration statement providing for the issuance and sale of registered securities, which may consist of secured and unsecured debt, preferred stock and common stock. In March 2006, the Company entered into a Sales Agency Financing Agreement with BNY Capital Markets, Inc. relating to the issuance and sale of up to $45 million aggregate amount of shares of the Company's common stock, from time to time over a three-year period ("Equity Shelf Program"). Sales of the shares will be made at market prices prevailing at the time of sale. Net proceeds from the sale of shares of common stock under the Equity Shelf Program will be used for general corporate purposes, including the acquisition of property for the construction, completion, extension or improvement of pipeline systems and facilities located in and around the communities Southwest serves.

During the three months ended March 31, 2006, the Company issued approximately 445,000 shares of common stock through the Equity Shelf Program, Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan. Of this activity, approximately 154,000 shares were issued in at-the-market offerings through the Equity Shelf Program at an average price of $28.01 per share.

**Note 6 – Credit Facility**

In April 2006, the Company amended its $300 million credit facility. The facility was originally scheduled to expire in April 2010 and was extended to April 2011. The Company will continue to use $150 million of the $300 million as long-term debt and the remaining $150 million for working capital purposes. Interest rates for the facility are calculated at either the London Interbank Offering Rate plus an applicable margin, or the greater of the prime rate or one-half of one percent plus the Federal Funds rate. The applicable margin, unused commitment fee, and utilization fee associated with the amended credit facility are lower than those of the previous facility.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Executive Summary

The following discussion of Southwest Gas Corporation and subsidiaries (the "Company") includes information related to regulated natural gas transmission and distribution activities and non-regulated activities.

The Company is composed of two business segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services. Southwest is engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada, and California. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor and transporter of natural gas in Nevada, serving 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 and the high desert and mountain areas in San Bernardino County.

Northern Pipeline Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

*Consolidated Results of Operations*

| | Period Ended March 31, | | | |
|---|---|---|---|---|
| | Three Months | | Twelve Months | |
| | 2006 | 2005 | 2006 | 2005 |
| Contribution to net income | | | | |
| (Thousands of dollars, except per share amounts) | | | | |
| Natural gas operations | $ 42,077 | $ 32,386 | $ 43,361 | $ 40,184 |
| Construction services | 2,103 | 443 | 11,813 | 8,376 |
| Net income | $ 44,180 | $ 32,829 | $ 55,174 | $ 48,560 |
| Basic earnings per share | | | | |
| Natural gas operations | $ 1.07 | $ 0.87 | $ 1.12 | $ 1.12 |
| Construction services | 0.05 | 0.01 | 0.30 | 0.23 |
| Consolidated | $ 1.12 | $ 0.88 | $ 1.42 | $ 1.35 |

Consolidated results of operations improved during the first quarter of 2006 compared to the prior year primarily due to higher operating margin resulting from customer growth, the recognition of one month of the Arizona general rate increase, and slightly better (but still warmer-than-normal) weather. In addition, NPL, the Company's construction services subsidiary, increased its contribution to net income.

See separate discussions at **Results of Natural Gas Operations** and **Results of Construction Services.** Average shares outstanding increased by 2.4 million between the first quarter of 2006 and 2005 and 2.9 million in the current twelve-month period compared to the same period a year ago, primarily resulting from at-the-market offerings through Equity Shelf Programs and continuing issuances under the Company's various stock plans.

As reflected in the table above, the natural gas operations segment accounted for an average of 81 percent of twelve-month-to-date consolidated net income over the past two years. Accordingly, management's main focus of discussion in this document is on that segment.

Southwest's operating revenues are recognized from the distribution and transportation of natural gas (and related services) to customers. Operating margin is the measure of gas operating revenues less the net cost of gas sold.

Management uses operating margin as a main benchmark in comparing operating results from period to period. The three principal factors affecting operating margin are general rate relief, weather, and customer growth.

*General Rate Relief*

In February 2006, the Arizona Corporation Commission ("ACC") rendered a general rate decision that increased rates in Arizona by $49.3 million annually effective March 1, 2006. Although the ACC decision did not approve most of the requested improvements in rate design, the rate relief authorized is expected to have a significant positive impact on 2006 operating results. During the first quarter of 2006, general rate relief in Arizona provided a $5 million increase in operating margin. In California, a protest filed by the Division of Ratepayer Advocates has delayed a decision in the Company's 2005 annual attrition filing. The Company expects the California Public Utility Commission to decide the matter in the second quarter of 2006. See the section on **Rates and Regulatory Proceedings** for additional information on these matters.

*Weather*

Weather is a significant driver of natural gas volumes used by residential and small commercial customers and is the main reason for volatility in margin. Space heating-related volumes are the primary component of billings for these customer classes and are concentrated in the months of November to April for the majority of the Company's customers. Variances in temperatures from normal levels, especially in Arizona where rates remain highly leveraged, have a significant impact on the margin and associated net income of the Company. Differences in heating demand caused primarily by weather variations between the first quarters of 2006 and 2005, accounted for a $1 million increase in operating margin. Temperatures in both periods were warmer than normal.

*Customer Growth*

Southwest purchases, transports, and distributes natural gas to approximately 1,737,000 residential, commercial, industrial, and other customers, of which 54 percent are located in Arizona, 36 percent are in Nevada, and 10 percent are in California. During the twelve months ended March 31, 2006, Southwest earned 51 percent of operating margin in Arizona, 38 percent in Nevada, and 11 percent in California. During this same period, Southwest earned 86 percent of operating margin from residential and small commercial customers, 5 percent from other sales customers, and 9 percent from transportation customers. These general patterns are expected to continue.

Customer growth, excluding acquisitions, has averaged five percent annually in recent years. Southwest served 105,000 more customers in the first quarter of 2006 than in the same period of 2005 (including approximately 19,000 customers associated with the South Lake Tahoe acquisition in April 2005). Incremental margin of $14 million was realized in the first quarter of 2006 related primarily to this customer growth, as well as increased usage from existing transportation and nonweather-sensitive sales customers.

Customer growth requires significant capital outlays for new transmission and distribution plant and results in higher service costs associated with operating and maintaining such facilities. Financing of activities supporting continued construction occurred during the first quarter of 2006. In March 2006, the Company entered into a Sales Agency Financing Agreement with BNY Capital Markets, Inc. ("BNYCMI") relating to the issuance and sale of up to $45 million aggregate amount of shares of the Company's common stock from time to time over a three-year period. (See the section on **2006 Construction Expenditures and Financing Activity** for additional information.) During the first quarter of 2006, the Company issued 445,000 shares of common stock through its various stock plans, receiving $11 million in net proceeds. In addition, during the first quarter of 2006, Southwest partially offset capital outlays by collecting approximately $11 million in net advances and contributions from third-party contractors.

The results of the natural gas operations segment and the overall results of the Company are heavily dependent upon the three components noted previously (general rate relief, weather, and customer growth). Significant changes in these components (primarily weather) have contributed to somewhat volatile earnings historically. Management continues to work with its regulatory commissions in designing rate structures that strive to provide affordable and reliable service to its customers while mitigating the volatility in prices to customers and stabilizing returns to investors.

*Natural Gas Costs*

The price of natural gas has increased dramatically over the past several years. Since December 2004, prices have increased to record levels, particularly following the occurrences of Hurricanes Katrina and Rita during the third quarter of 2005 which caused supply interruptions and damaged natural gas production facilities in the U.S. Gulf of Mexico. Increased demand from recently constructed natural gas-fueled electric generating plants has also affected the price of natural gas. A relatively mild winter in the United States during the 2005/2006 heating season lowered demand for natural gas resulting in reduced prices from recent record levels; however, natural gas price volatility is expected to continue throughout 2006. Sustained high prices can result in increased under-collected purchased gas adjustment ("PGA") balances and thereby temporarily reduce operating cash flows until rate relief is granted to recover the higher costs. See the section on **PGA Filings** for additional information.

*Stock-Based Compensation*

During the first quarter of 2006, the Company began expensing all stock-based compensation costs. Gross expense was $1.8 million including $320,000 for stock options and $1.5 million related to performance shares. Stock compensation expense related to the acceleration of performance shares to retirement-eligible employees was $1 million. In the first quarter of 2005, expense related to stock-based compensation (performance shares) was $837,000.

*Results of Construction Services Operations*

The Company's construction subsidiary, NPL, increased its contribution to consolidated net income by $1.7 million in the first quarter of 2006 when compared to the prior year. The increase was primarily due to favorable weather in a majority of NPL's operating areas and overall revenue growth, coupled with an improvement in the number of profitable bid jobs, and a favorable equipment resale market in the current quarter.

**Results of Natural Gas Operations**

Quarterly Analysis

| | Three Months Ended March 31, 2006 | 2005 |
|---|---|---|
| | (Thousands of dollars) | |
| Gas operating revenues | $ 608,142 | $ 494,983 |
| Net cost of gas sold | 397,497 | 303,927 |
| Operating margin | 210,645 | 191,056 |
| Operations and maintenance expense | 78,387 | 74,276 |
| Depreciation and amortization | 35,553 | 34,247 |
| Taxes other than income taxes | 10,617 | 10,314 |
| Operating income | 86,088 | 72,219 |
| Other income (expense) | 2,952 | 1,086 |
| Net interest deductions | 21,955 | 19,882 |
| Net interest deductions on subordinated debentures | 1,931 | 1,931 |
| Income before income taxes | 65,154 | 51,492 |
| Income tax expense | 23,077 | 19,106 |
| Contribution to consolidated net income | $ 42,077 | $ 32,386 |

Contribution from natural gas operations increased $9.7 million in the first quarter of 2006 compared to the same period a year ago. The improvement in contribution was primarily caused by higher operating margin, partially offset by increased operating expenses and financing costs. The current-period results include $1.7 million of nonrecurring state income tax benefits.

Operating margin increased approximately $20 million, or ten percent, in the first quarter of 2006 compared to the first quarter of 2005. During the last twelve months, the Company added 86,000 customers (excluding 19,000 customers acquired April 2005 in South Lake Tahoe), an increase of five percent. New and acquired customers, coupled with additional amounts from existing transportation and nonweather-sensitive sales customers, contributed an incremental $14 million in operating margin during the quarter. Rate relief in Arizona added $5 million in operating margin compared to the prior year. Differences in heating demand caused primarily by weather variations between periods resulted in a $1 million operating margin increase as warmer-than-normal temperatures were experienced during both periods. During the current quarter, operating margin was negatively impacted by $9 million, and in the prior-year quarter, the negative impact was $10 million.

Operations and maintenance expense increased $4.1 million, or six percent, primarily due to the impact of general cost increases and incremental costs associated with providing service to a growing customer base. Factors contributing to the increase included uncollectible expenses, employee-related costs, and incremental stock-based compensation costs.

Depreciation expense and general taxes increased $1.6 million, or four percent, as a result of construction activities. Average gas plant in service increased $236 million, or seven percent, as compared to the first quarter of 2005. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities, the expansion of the system to accommodate continued customer growth, and the purchase of the South Lake Tahoe properties.

Other income (expense) increased $1.9 million during the first quarter of 2006 compared to the same period in 2005. Returns on long-term investments improved by approximately $1 million in the first quarter of 2006. The current period also includes an $800,000 improvement in interest income primarily associated with the unrecovered balance of deferred purchased gas costs.

Net financing costs rose $2.1 million, or ten percent, between the first quarters of 2006 and 2005 primarily due to an increase in average debt outstanding (to help finance growth and the higher unrecovered purchased gas adjustment ("PGA") balance) and higher rates on variable-rate debt.

Twelve-Month Analysis

| | Twelve Months Ended March 31, 2006 | Twelve Months Ended March 31, 2005 |
|---|---|---|
| | (Thousands of dollars) | |
| Gas operating revenues | $ 1,568,416 | $ 1,323,251 |
| Net cost of gas sold | 921,701 | 713,095 |
| Operating margin | 646,715 | 610,156 |
| Operations and maintenance expense | 318,548 | 295,095 |
| Depreciation and amortization | 139,287 | 132,476 |
| Taxes other than income taxes | 39,343 | 38,074 |
| Operating income | 149,537 | 144,511 |
| Other income (expense) | 6,953 | 2,717 |
| Net interest deductions | 83,668 | 79,392 |
| Net interest deductions on subordinated debentures | 7,723 | 7,725 |
| Income before income taxes | 65,099 | 60,111 |
| Income tax expense | 21,738 | 19,927 |
| Contribution to consolidated net income | $ 43,361 | $ 40,184 |

Contribution to consolidated net income from natural gas operations increased $3.2 million in the current twelve-month period compared to the same period a year ago. The improvement in contribution was primarily caused by higher operating margin, partially offset by increased operating expenses and financing costs.

Operating margin increased $37 million between periods. Customer growth contributed an incremental $29 million and rate relief in all service territories added $12 million. Differences in heating demand caused primarily by weather variations between periods resulted in a $4 million operating margin decrease as warmer-than-normal temperatures were experienced during both periods. During the current period, operating margin was negatively impacted by $18 million, and in the prior period, the negative impact was $14 million.

Operations and maintenance expense increased $23.5 million, or eight percent, between periods reflecting general cost increases and incremental operating costs associated with serving additional customers. A significant component of the variance related to a $10 million nonrecurring provision for an injuries and damages case made in December 2005 (see *Insurance Coverage* below for more information). Additional factors included increases in insurance premiums, uncollectible expenses, and employee-related expenses.

Depreciation expense and general taxes increased $8.1 million, or five percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased $246 million, or eight percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Other income (expense) increased $4.2 million in the current twelve-month period compared to the same period in 2005. Returns on long-term investments improved by approximately $2.7 million in the current period. The current period also includes a $900,000 increase in interest income primarily associated with the unrecovered balance of deferred purchased gas costs and a $1.1 million increase in the allowance for equity funds used during construction.

Net financing costs increased $4.3 million, or five percent, primarily due to an increase in average debt outstanding to help finance growth and higher rates on variable-rate debt.

Income tax expense in the current period includes a nonrecurring $1.7 million state income tax benefit. Income tax expense in the prior period included a $1.6 million benefit, recognized in the third quarter of 2004, which resulted from completion of general rate cases and the closure of federal tax year 2000.

**Results of Construction Services**

For the three months ended March 31, 2006, construction revenues and construction expenses increased 44 and 40 percent, respectively, when compared to the corresponding periods in 2005. These increases reflect a greater amount of work in several of NPL's operating areas. Contribution to consolidated net income for the three and twelve months ended March 31, 2006 increased $1.7 million and $3.4 million, respectively, when compared to the corresponding periods in 2005. These increases were primarily due to favorable weather conditions in the majority of NPL's operating areas, revenue growth, an improvement in the number of profitable bid jobs, an advantageous mix of work, and a favorable equipment resale market in the current period. The amount of work received under existing blanket contracts, the amount of bid work, and the equipment resale market vary from period to period.

**Rates and Regulatory Proceedings**

*Arizona General Rate Case.* In February 2006, the ACC rendered a decision on the general rate case filed by Southwest in December 2004. The ACC approved a $49.3 million increase in operating revenues, effective March 2006. The decision did not include the rate design changes or the conservation tracker Southwest had requested. While the ACC did authorize an increase in the customer charge by $1.70 per month, the rate design approved continues to expose customers, investors and the Company to the risks associated with weather volatility. The ACC did however encourage Southwest to work with the ACC Staff and other interested parties prospectively to seek rate design alternatives that will provide benefits to all affected stakeholders. Southwest estimates that operating margin during the first quarter of 2006 reflected $5 million of general rate relief.

*California Attrition Filing.* In October 2005, Southwest made its annual attrition filing requesting a $4.5 million increase in operating margin. The effective date of new rates was originally anticipated to be January 2006. The Division of Ratepayer Advocates ("DRA") filed a protest to the attrition filing disagreeing with the Company's calculation, even though the Company's filing was made consistent with its two previous attrition increases. As a result of the protest, the Energy Division suspended the filing. In February 2006, the Energy Division issued a draft resolution, and Southwest issued comments in response. As a result of the delay in resolving the attrition filing, in December 2005, Southwest filed a motion requesting authorization to establish a memorandum account to track the related revenue shortfall between the existing and proposed rates in the attrition filing which was approved effective April 13, 2006. The Company expects a California Public Utilities Commission ("CPUC") decision resolving the matter of the attrition filing in the second quarter of 2006.

*Nevada Weather Normalization Adjustment Provision.* In March 2005, Southwest filed an application requesting the Public Utilities Commission of Nevada ("PUCN") to approve a weather normalization adjustment provision in advance of the Company's next general rate case. This filing requested that winter season billing volumes for weather sensitive customers be adjusted to reflect consumption variations that can be attributed to departures from normal weather. In the second quarter of 2005, the PUCN opened an investigation/rulemaking docket to address the issue of weather normalization, and in November 2005, the PUCN requested additional information to be submitted by May 2006. Southwest expects the PUCN to issue guidelines during 2006 regarding the methodology to be used in any future mechanisms, which the Company could propose in its next general rate application.

*FERC Jurisdiction.* In November 2005, the Federal Energy Regulatory Commission ("FERC") approved an uncontested settlement that resolved all issues related to Paiute's general rate case filed in January 2005. Under the settlement, Paiute's authorized firm transportation revenue, including incrementally priced facilities, will decrease by approximately $300,000 per year and storage revenues will be reduced by approximately 28 percent, or $2.2 million per year. Despite the lower rates, Paiute's total operating margin is expected to increase slightly from 2005 levels because a former customer who had ceased service in 2003 returned under the new rate structure. The new storage and transportation rates were implemented in March and August 2005, respectively, subject to refund. As a result of the rate case settlement, in 2005 Paiute accrued $1.7 million for refunds to customers. These amounts were refunded in February 2006.

**PGA Filings**

All of Southwest's state regulatory commissions have regulations that permit the Company to track and recover its actual costs of purchased gas. Deferred energy provisions and purchased gas adjustment clauses are collectively referred to as "PGA" clauses. PGA filings are subject to audit by state regulatory commission staffs. PGA rate changes impact cash flows but have no direct impact on profit margin. As of March 31, 2006 and December 31, 2005, Southwest had the following outstanding PGA balances receivable (millions of dollars):

| | March 31, 2006 | December 31, 2005 |
|---|---|---|
| Arizona | $ 73.8 | $ 46.8 |
| Northern Nevada | 8.0 | 12.6 |
| Southern Nevada | 38.3 | 39.4 |
| California | 0.7 | 10.6 |
| | $ 120.8 | $ 109.4 |

*Arizona PGA Filings.* In Arizona, Southwest adjusts rates monthly for changes in purchased gas costs, within pre-established limits measured on a twelve-month rolling average. During the first quarter of 2006, the ACC approved an increase in the pre-established limit from $0.10 to $0.13 per therm. In addition, the ACC approved the implementation of a temporary PGA surcharge of $0.11 per therm effective February 2006 to pass through higher costs of natural gas incurred during 2005. These changes will facilitate the recovery of under-recovered gas cost balances.

*Nevada Deferred Energy Adjustment Filing.* Nevada Senate Bill No. 238, which became effective in October 2005, provides for quarterly gas cost adjustments calculated on a twelve-month rolling average. These adjustments will be made effective immediately upon filing each quarter, but are subject to an annual prudence review and audit of the natural gas costs incurred. The Company filed its first quarterly adjustment in the first quarter of 2006 which resulted in slight reductions to current gas cost recovery rates.

**Other Filings**

*El Paso Transmission System.* In June 2005, El Paso Natural Gas Company ("El Paso") filed a general rate case application with the FERC. (Southwest is dependent upon El Paso for the transportation of natural gas for virtually all of its Arizona service territories and part of its southern Nevada service territories.) As part of its application, which is the first since the conversion of full requirements customers like Southwest to contract demand services, El Paso proposed various tariff changes along with new service offerings. It is estimated that the impact of the proposed rate increase will be an annual increase in gas transportation costs to Southwest of as much as $44 million. The new rates became effective January 2006, subject to refund. However, the implementation of new services and certain overrun and imbalance penalty charges proposed in El Paso's application has been deferred to June 2006. It is anticipated that any additional costs to Southwest resulting from El Paso's filing will be collected from customers through the PGA mechanism.

**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 high customer growth. This growth has required significant capital outlays for new transmission and distribution plant, to keep up with consumer demand. During the twelve-month period ended March 31, 2006, construction expenditures for the natural gas operations segment were $271 million (excluding the South Lake Tahoe acquisition in April 2005). Approximately 77 percent of these current-period expenditures represented new construction and the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant. Cash flows from operating activities of Southwest (net of dividends paid) provided $110 million of the required capital resources pertaining to total capital expenditures for the twelve months ended March 31, 2006. The remainder was provided from external financing activities and existing credit facilities. Operating cash flows in the twelve months ended March 31, 2006 were negatively impacted by natural gas prices as under-collected PGA balances have increased from $74 million at March 31, 2005 to $120.8 million at March 31, 2006. Southwest utilizes short-term borrowings to temporarily finance under-collected PGA balances. See the Liquidity section below.

*2006 Construction Expenditures and Financing*

Southwest estimates construction expenditures during the three-year period ending December 31, 2008 will be approximately $778 million. Of this amount, approximately $284 million are expected to be incurred in 2006. During the three-year period, cash flows from operating activities (net of dividends) is estimated to fund approximately 90 percent of the gas operations' total construction expenditures, assuming timely recovery of currently deferred PGA balances. Southwest also has $117 million in long-term debt maturities over the three-year period. Industrial Development Revenue Bonds ("IDRB") funds held in trust, another source of funding, were $6.6 million at March 31, 2006 and $24.6 million at December 31, 2005. The remaining funds are expected to be drawn down in the second quarter of 2006. The Company expects to raise $75 million to $100 million from its various common stock programs. The remaining cash requirements are expected to be provided by other 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, growth levels in Southwest service areas, and earnings. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, contributions and advances, and other forms of financing.

The Company has a universal shelf registration statement providing for the issuance and sale of registered securities, which may consist of secured and unsecured debt, preferred stock and common stock. In March 2006, the Company entered into a Sales Agency Financing Agreement with BNY Capital Markets, Inc. relating to the issuance and sale of up to $45 million aggregate amount of shares of the Company's common stock, from time to time over a three-year period ("Equity Shelf Program"). Sales of the shares will be made at market prices prevailing at the time of sale. Net proceeds from the sale of shares of common stock under the Equity Shelf Program will be used for general corporate purposes, including the acquisition of property for the construction, completion, extension or improvement of pipeline systems and facilities located in and around the communities Southwest serves.

During the quarter ended March 31, 2006, approximately 154,000 shares were issued in at-the-market offerings through the Equity Shelf Program at an average price of $28.01 per share with gross proceeds of $4.3 million, agent commissions of $43,000, and net proceeds of $4.3 million. During the three months ended March 31, 2006, the Company issued approximately 291,000 additional shares of common stock through the Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan.

*Liquidity*

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. Several general factors that could significantly affect capital resources and liquidity in future years include inflation, growth in Southwest's service territories, changes in income tax laws, changes in the ratemaking policies of regulatory commissions, interest rates, the variability of natural gas prices, and the level of Company earnings.

The price of natural gas has increased dramatically over the past several years. Since December 2004, prices have increased to record levels, particularly following the occurrences of Hurricanes Katrina and Rita during the third quarter of 2005 which caused supply interruptions and damaged natural gas production facilities in the U.S. Gulf of Mexico. Increased demand from recently constructed natural gas-fueled electric generating plants has also affected the price of natural gas. A relatively mild winter in the United States during the 2005/2006 heating season lowered demand for natural gas resulting in reduced prices from recent record levels; however, natural gas price volatility is expected to continue throughout 2006.

Southwest periodically enters into fixed-price term contracts to mitigate price volatility. Management anticipates that about half of Southwest's normal weather supply needs for the upcoming 2006/2007 heating season will be secured using short duration fixed-price contracts (generally less than one year). Natural gas purchases not covered by fixed-price contracts are made under variable-price contracts with firm quantities and on the spot market, which is subject to market fluctuations. Southwest does not currently utilize other stand-alone derivative financial instruments for speculative purposes, or for hedging; however, a hedging program utilizing stand-alone derivative instruments to mitigate price volatility is planned starting in the third quarter of 2006. The costs of such derivative financial instruments will be pursued for recovery from customers as part of the PGA mechanisms in each jurisdiction.

The rate schedules in Southwest's service territories contain PGA clauses which permit adjustments to rates as the cost of purchased gas changes. The PGA mechanism allows Southwest to request 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.

On an interim basis, Southwest generally defers over or under-collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At March 31, 2006, the combined balances in PGA accounts totaled an under-collection of $120.8 million versus an under-collection of $109.4 million at December 31, 2005. See **PGA Filings** section for more information on recent regulatory filings. Southwest utilizes short-term borrowings to temporarily finance under-collected PGA balances. At March 31, 2006, the short-term portion of its credit facility had no borrowings outstanding.

The following table sets forth the ratios of earnings to fixed charges for the Company. Due to the seasonal nature of the Company's business, these ratios are computed on a twelve-month basis:

| | For the Twelve Months Ended | |
|---|---|---|
| | March 31, 2006 | December 31, 2005 |
| Ratio of earnings to fixed charges | 1.85 | 1.70 |

Earnings are defined as the sum of pretax income plus fixed charges. Fixed charges consist of all interest expense including capitalized interest, one-third of rent expense (which approximates the interest component of such expense), and amortized debt costs.

*Insurance Coverage*

The Company maintains liability insurance for various risks associated with the operation of its natural gas pipelines and facilities. In connection with these liability insurance policies, the Company has been responsible for an initial deductible or self-insured retention amount per incident, after which the insurance carriers would be responsible for amounts up to the policy limits. For the policy year August 2004 to July 2005, the self-insured retention amount associated with general liability claims was $1 million per incident plus payment of the first $10 million in aggregate claims above $1 million in the policy year. In May 2005, a leaking natural gas line was involved in a fire that severely injured an individual. The leak is believed to have been caused by a rock impinging upon a natural gas line that was installed for Southwest Gas and that is owned and operated by the Company. In December 2005, the plaintiffs filed a complaint against the Company claiming $3.4 million in medical bills, $12 million in future medical expenses, and unspecified claims for general and punitive damages. The Company has answered the complaint and denied liability. If the Company was deemed fully or partially responsible, the Company estimates its exposure could be as much as $11 million (the maximum noted above). By December 2005, the Company had recorded a total liability related to this incident equal to the Company's maximum self-insured retention level of $11 million.

For the policy year August 2005 to July 2006, the Company entered into insurance contracts that limit the Company's self-insured retention to $1 million per incident plus payment of the first $5 million in aggregate claims above $1 million.

**Recently Issued Accounting Pronouncements**

*Recently Issued Accounting Pronouncements.* In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140." SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation and clarifies several other related issues. The provisions of SFAS No. 155 are effective for all financial instruments acquired or issued in the first fiscal year beginning after September 15, 2006. The Company has not evaluated what impact, if any, this standard will have on its financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140." SFAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The provisions of SFAS No. 156 are effective for the recognition and initial measurement of servicing assets and liabilities acquired or issued in the first fiscal year beginning after September 15, 2006. The Company has not evaluated what impact, if any, this standard will have on its financial position or results of operations.

**Forward-Looking Statements**

This quarterly report contains statements which constitute "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995 ("Reform Act"). All statements other than statements of historical fact included or incorporated by reference in this quarterly report are forward-looking statements, including, without limitation, statements regarding the Company's plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions. The words "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "continue," and similar words and expressions are generally used and intended to identify forward-looking statements. In particular, statements regarding the Company's anticipated liability relating to a May 2005 accident, customer growth, customer mix and revenue patterns, efficiencies resulting from new technology, construction services contribution, ability to receive more effective rate designs, sufficiency of working capital and ability to raise funds and receive external financing, and statements regarding future gas prices, future PGA balances, the effects of recent accounting pronouncements, and the timing and results of future rate approvals and guidelines are forward-looking statements. All forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act.

A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, changes in natural gas prices, our ability to recover costs through our PGA mechanism, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, changes in construction expenditures and financing, renewal of franchises, easements and rights-of-way, changes in operations and maintenance expenses, effects of accounting changes, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, acquisitions and management's plans related thereto, competition, and our ability to raise capital in external financings or through our DRSPP. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing, operations and maintenance expenses will continue in future periods. For additional information on the risks associated with the Company's business, see **Item 1A. Risk Factors** in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

All forward-looking statements in this quarterly report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. **We caution you not to unduly rely on any forward-looking statement(s).**

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** in the Company's 2005 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the Company's disclosures about market risk.

## ITEM 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and benefits of controls must be considered relative to their costs. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on the most recent evaluation, as of March 31, 2006, management of the Company, including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting during the first quarter of 2006 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company maintains liability insurance for various risks associated with the operation of its natural gas pipelines and facilities. In connection with these liability insurance policies, the Company has been responsible for an initial deductible or self-insured retention amount per incident, after which the insurance carriers would be responsible for amounts up to the policy limits. For the policy year August 2004 to July 2005, the self-insured retention amount associated with general liability claims increased from $1 million per incident to $1 million per incident plus payment of the first $10 million in aggregate claims above $1 million in the policy year. For the policy year August 2005 to July 2006, the Company entered into insurance contracts that limit the Company's self-insured retention to $1 million per incident plus payment of the first $5 million in aggregate claims above $1 million. In May 2005, a leaking natural gas line was involved in a fire that severely injured an individual. The leak is believed to have been caused by a rock impinging upon a natural gas line that was installed for Southwest Gas and that is owned and operated by the Company. A complaint was filed against the Company in December 2005 in which the plaintiffs have claimed $3.4 million in medical bills, $12 million in future medical expenses, and made unspecified claims for general and punitive damages. The Company has answered the complaint and denied liability. If the Company was deemed fully or partially responsible, the Company estimates its exposure could be as much as $11 million (the maximum noted above). By December 2005, the Company had recorded an $11 million liability related to this incident.

The Company is named as a defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that none of this litigation individually or in the aggregate will have a material adverse impact on the Company's financial position or results of operations.

**ITEMS 1A. through 5.** None.

### ITEM 6. EXHIBITS

The following documents are filed as part of this report on Form 10-Q:

Exhibit 12.01 - Computation of Ratios of Earnings to Fixed Charges.
Exhibit 31.01 - Section 302 Certifications.
Exhibit 32.01 - Section 906 Certifications.

## SIGNATURES

Pursuant to the requirements 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
(Registrant)

Date: May 8, 2006

/s/ Roy R. Centrella
Roy R. Centrella
Vice President/Controller and Chief Accounting Officer

Notice of 2005 Annual Meeting of Shareholders
and Proxy Statement

SOUTHWEST GAS CORPORATION

# Annual Meeting 2005

May 5, 2005 – Las Vegas, Nevada

## SOUTHWEST GAS CORPORATION

**5241 Spring Mountain Road**
**Las Vegas, Nevada 89150**

### NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**To be Held Thursday, May 5, 2005**

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Southwest Gas Corporation ("Company") will be held on Thursday, May 5, 2005, at 10:00 a.m. in the convention facilities at the Rio Pavilion Convention Center, Rio All-Suite Casino Resort, 3700 West Flamingo Road, Las Vegas, Nevada, for the following purposes:

(1) To elect 12 directors of the Company;

(2) To consider and act upon a proposal to ratify the selection of PricewaterhouseCoopers LLP as independent accountants of the Company; and

(3) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Board of Directors has established March 8, 2005, as the record date for the determination of shareholders entitled to vote at the Annual Meeting and to receive notice thereof.

Shareholders are cordially invited to attend the meeting in person. WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, PLEASE VOTE THE ACCOMPANYING PROXY BY TELEPHONE, INTERNET OR MAIL AT YOUR EARLIEST CONVENIENCE. IF YOU MAIL IN YOUR PROXY, PLEASE USE THE ENCLOSED POSTAGE PAID ENVELOPE.

The Annual Report to Shareholders for the year ended December 31, 2004, is also enclosed.

George C. Biehl

George C. Biehl
Executive Vice President/Chief Financial Officer
& Corporate Secretary

March 24, 2005

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**SOUTHWEST GAS CORPORATION**

Jeffrey W. Shaw, C.E.O.

March 24, 2005

Dear Shareholders:

You are cordially invited to the Annual Meeting of Shareholders of Southwest Gas Corporation scheduled to be held on Thursday, May 5, 2005, in the convention facilities at the Rio Pavilion Convention Center, Rio All-Suite Casino Resort, 3700 West Flamingo Road, Las Vegas, Nevada, commencing at 10:00 a.m. Your Board of Directors looks forward to greeting personally those shareholders able to attend.

At the meeting you will be asked to consider the election of 12 directors and the ratification of PricewaterhouseCoopers LLP as the Company's independent accountants for 2005. Your Board of Directors asks you to support the director nominees and to vote FOR ratification of the selection of PricewaterhouseCoopers LLP.

It is important that your shares are represented and voted at the meeting regardless of the number of shares you own and whether or not you plan to attend. Accordingly, we request you vote the accompanying proxy by telephone, internet or mail at your earliest convenience.

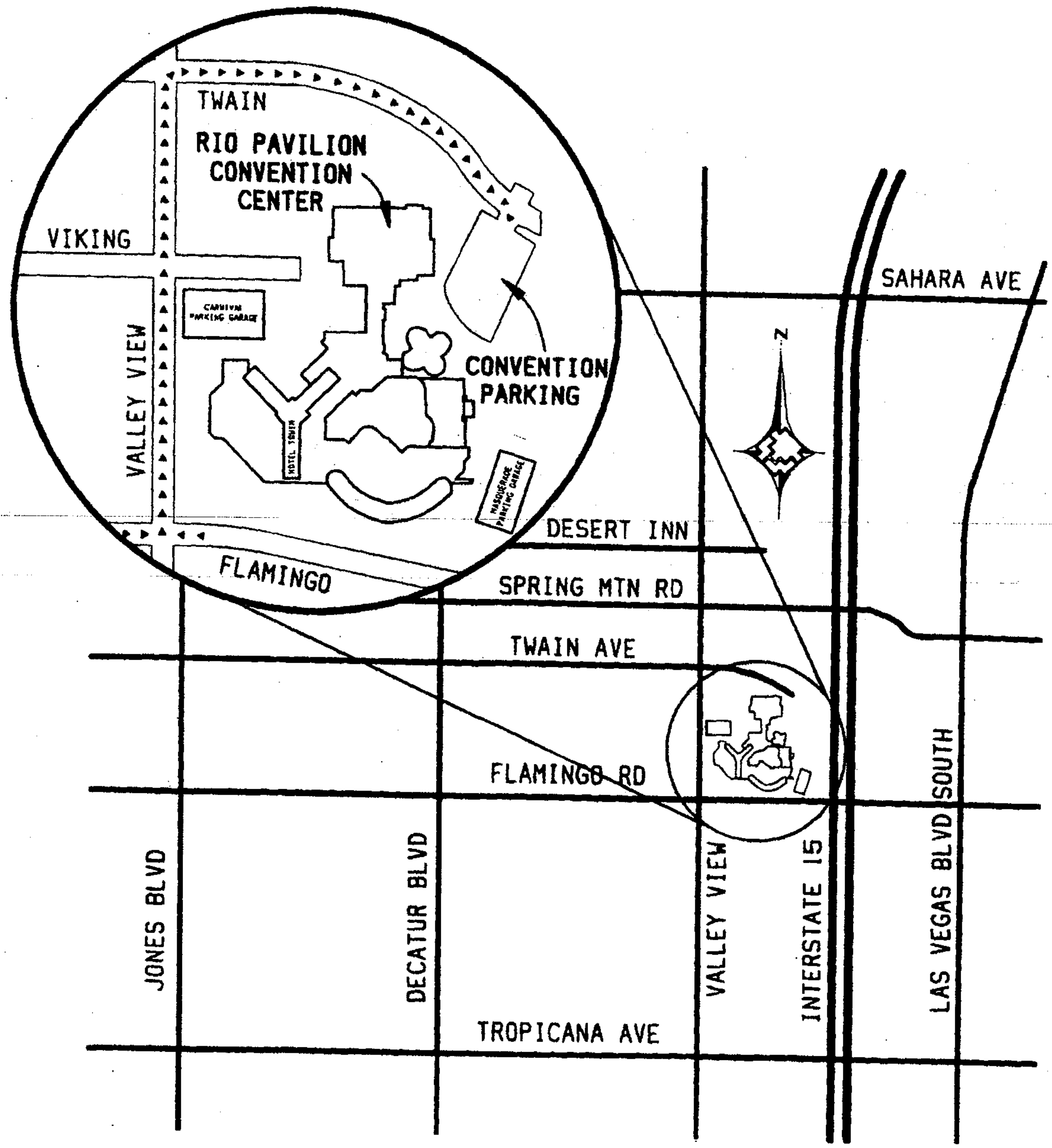
Your interest and participation in the affairs of the Company are sincerely appreciated.

Sincerely,

LOCATION OF 2005
SOUTHWEST GAS CORPORATION

# ANNUAL MEETING OF SHAREHOLDERS

**RIO PAVILION CONVENTION CENTER**
**Rio All-Suite Casino Resort**
**3700 West Flamingo Road**
**Las Vegas, Nevada**



## SOUTHWEST GAS CORPORATION

**5241 Spring Mountain Road • P.O. Box 98510**
**• Las Vegas, Nevada 89193-8510 •**

### PROXY STATEMENT
**March 24, 2005**

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Southwest Gas Corporation (the "Company") of proxies representing the common stock of the Company (the "Common Stock") to be voted at the Annual Meeting of Shareholders of the Company to be held on May 5, 2005, in the convention facilities at the Rio Pavilion Convention Center, Rio All-Suite Casino Resort, 3700 West Flamingo Road, Las Vegas, Nevada, commencing at 10:00 a.m. and at any adjournment thereof. This Proxy Statement and accompanying proxy card are first being mailed to shareholders on or about March 24, 2005.

A form of proxy is enclosed for your use. The Company will acknowledge revocation of any proxy upon request of the record holder made in person or in writing prior to the exercise of the proxy, or upon receipt of a valid proxy bearing a later date. Delivery of a revocation or valid proxy bearing a later date shall be made to the Corporate Secretary of the Company. If a shareholder executes two or more proxies with respect to the same shares, the proxy bearing the most recent date will be honored if otherwise valid. All shares represented by valid proxies will be voted at the Annual Meeting. Where a shareholder specifies by means of the proxy a choice with respect to any matter to be acted upon, his or her shares will be voted in accordance with each specification so made.

The entire cost of soliciting proxies will be paid by the Company. In following up on the original mail solicitation of proxies, the Company will make arrangements with brokerage houses and other custodians, nominees, and fiduciaries to send proxies and proxy materials to the beneficial owners of Common Stock and will reimburse them for their expenses in so doing. Under an agreement with the Company, Morrow & Co. will assist in obtaining proxies from certain larger and other shareholders at an estimated cost of $5,500 plus certain expenses.

The total number of shares of Common Stock outstanding at the close of business on March 8, 2005 (the "Record Date") was 37,209,675. Only holders of Common Stock on the Record Date are entitled to notice of and to vote at the Annual Meeting. The Company will appoint either one or three inspectors of election in advance of the meeting to tabulate votes, to ascertain whether a quorum is present, and to determine the voting results on all matters presented to shareholders. A majority of all shares of Common Stock entitled to vote, represented in person or by proxy, constitutes a quorum. Abstentions and broker non-votes are each included in the determination of the number of shares present; however, they are not counted for the purpose of determining the election of each nominee for director or as an affirmative vote for the ratification of PricewaterhouseCoopers LLP as the Company's independent accountants.

Each share of Common Stock is entitled to one vote. Shareholders have cumulative voting rights with respect to the election of directors, if certain conditions are met. Any shareholder otherwise entitled to vote may cumulate his or her votes for a candidate or candidates placed in nomination at the meeting if, prior to the voting, he or she has given notice at the meeting that he or she intends to cumulate his or her votes. A shareholder electing to cumulate his or her votes may cast as many votes as there are directors to be elected, multiplied by the number of shares of Common Stock standing in his or her name on the books of the Company at the close of business on the Record Date. A shareholder may cast all of his or her votes for one candidate or allocate them among two or more candidates in any manner he or she chooses. If any one shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination.

The persons named in the proxies solicited by the Board of Directors (the "Board"), unless otherwise instructed, intend to vote the shares represented by such proxies:

* FOR ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent accountants; and

* In the case of the election of directors, equally FOR each of the 12 candidates for director named in this Proxy Statement. HOWEVER, if sufficient numbers of shareholders exercise cumulative voting rights to elect one or more other candidates, the management proxies will (i) determine the number of directors they are entitled to elect, (ii) select such number from among the named candidates, (iii) cumulate their votes, and (iv) cast their votes for each candidate among the number they are entitled to elect.

## GOVERNANCE OF THE COMPANY

### Board of Directors

Under the provisions of the California Corporations Code and the Company's Bylaws, the Company's business, property and affairs are managed by or under the direction of the Board. Members of the Board are kept informed of the Company's business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees.

The Board has determined that directors Chestnut, Cortez, Gardner, Hanneman, Hartley, Kropid, Melarkey, Sparks and Wright have no material relationships with the Company and are "independent." In making this determination, the Board has limited the definition of "material relationship" for all directors to criteria listed in Section 303A of the Listing Rules of the New York Stock Exchange ("NYSE"). For directors serving on the Audit Committee, the definition of "material relationship" also includes the criteria listed in Section 10A(m)(3) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 303.01 of the Listing Rules of the NYSE. For directors serving on the Compensation Committee, the definition of "material relationships" also includes the criteria listed in Section 16(b) of the Exchange Act and Section 162(m) of the Internal Revenue Code. The Board based these determinations primarily on a review of the responses of the directors and executive officers to questions regarding employment and compensation history, affiliations and family relationships and on discussions with directors.

Regular meetings of the Board are scheduled for the third Tuesday of January, September and November, the first Tuesday of March, the fourth Tuesday of July, and the Wednesday before the Annual Meeting in May. An organizational meeting is also held immediately following the Annual Meeting of Shareholders. The Board held six regular meetings, one special meeting, and one organizational meeting in 2004. Each incumbent director attended more than 75% of the meetings of the Board and committees on which he or she served during 2004. At least quarterly, the "independent" directors meet in executive session without members of management. These sessions are presided over by Thomas Y. Hartley, the Chairman of the Board (the "Presiding Director").

### Committees of the Board

The permanent committees of the Board consist of Audit, Compensation, Nominating and Corporate Governance, and Pension Plan Investment. Each committee has established responsibilities, while Audit, Compensation, and Nominating and Corporate Governance have detailed charters designed to satisfy the Listing Rules of the NYSE. The members of the Audit, Compensation, and Nominating and Corporate Governance are comprised solely of independent directors as outlined above.

The *Audit Committee*, whose functions are discussed here and below under the captions "Selection of Independent Accountants" and "Audit Committee Report," consists of directors Cortez (Chairman), Chestnut, Gardner, Hartley, and Wright. The committee meets periodically with management to consider, among other things, the adequacy of the Company's internal controls and financial reporting process. It also discusses these matters with the Company's independent accountants, internal auditors and Company financial personnel. The Board has determined that directors Gardner and Hartley, who are independent, both qualify as an *"audit committee financial expert,"* as the term is defined in Item 401(h) of Regulation S-K under the Exchange Act.

The *Compensation Committee* makes recommendations to the Board on such matters as directors' fees and benefit programs, executive compensation and benefits, and compensation and benefits for all other Company employees. The committee is also responsible for the "Executive Compensation Report" and related disclosures contained in this Proxy Statement. The committee consists of directors Sparks (Chairperson), Hanneman, Kropid, and Melarkey.

The *Nominating and Corporate Governance Committee* makes recommendations to the Board regarding nominees to be proposed by the Board for election as directors, evaluates the size, composition, organization, processes, and practices of the Board and Board committees, and establishes the criteria for the selection of directors. The committee will consider written suggestions from shareholders regarding potential nominees for election as directors. The process for selecting directors is addressed in more detail below under the caption "Selection of Directors." The committee is also charged with the responsibility of developing and recommending to the Board corporate governance principles and compliance programs for the Company. The committee consists of directors Wright (Chairman), Chestnut, Cortez, Gardner, and Hartley.

The *Pension Plan Investment Committee* establishes, monitors, and oversees, on a continuing basis, asset investment policy and practices for the retirement plan. The committee consists of directors Kropid (Chairman), Biehl, Hanneman, Maffie, Melarkey, and Sparks.

During 2004, the Audit Committee held seven meetings, the Compensation Committee held four meetings, the Nominating and Corporate Governance Committee held four meetings, and the Pension Plan Investment Committee held three meetings. The Executive Committee, which was dissolved on March 8, 2005, held no meetings.

The charters for the Audit, Compensation, and Nominating and Corporate Governance Committees, the Company's corporate governance guidelines, and code of conduct that applies to all employees, officers and directors are available on the Company's website at: *http://www.swgas.com/investorrelations*. Print versions of these documents are available to shareholders upon request directed to the Corporate Secretary, Southwest Gas Corporation, 5421 Spring Mountain Road, Las Vegas, NV 89150.

**Selection of Directors**

The Board believes that it should be comprised of individuals with varied, complementary backgrounds, who possess certain core competencies, some of which may include broad experience in business, finance or administration, and familiarity with national and international business matters and the energy industry. Additional factors that will be considered in the selection process include the following:

* Independence from management;

* Diversity, age, education, and geographic location;

* Knowledge and business experience;
* Integrity, leadership, reputation, and ability to understand the Company's business;
* Existing commitments to other businesses and boards; and
* The size of the Board and composition of the existing directors.

The Nominating and Corporate Governance Committee will consider candidates for directors suggested by shareholders applying the criteria for candidates described above and considering the additional information referred to below. Shareholders wishing to suggest a candidate should write to the Company's Corporate Secretary and include:

* A statement that the writer is a stockholder and is proposing a candidate for consideration as a director nominee;
* The name of and contact information for the candidate;
* A statement of the candidate's business and educational experience;
* Information regarding each of the factors listed above, sufficient to enable the committee to evaluate the candidate;
* A statement detailing any relationship between the candidate and the Company, Company affiliates, and any competitor of the Company;
* Detailed information about any relationship or understanding between the proposing stockholder and the candidate; and
* The candidate's written consent to being named a nominee and serving as a director if elected.

When seeking a candidate for director, the committee may solicit suggestions from incumbent directors, management or others. The committee may also retain a search firm to identify potential candidates. The Nominating and Corporate Governance Committee recommended the existing directors as the director nominees for this year's election.

Shareholders may also nominate a person for election to the Board at an annual meeting of shareholders by giving written notice to the Company not less than 20 days prior to the first anniversary of the preceding year's annual meeting or within 10 days after notice is mailed or public disclosure is made regarding a (i) change of the annual meeting by more than 30 days or (ii) special meeting at which directors are to be elected. For this year's Annual Meeting, such notice must be received by the Company on or before April 15, 2005. In order to make such a nomination, the stockholder is required to include in the written notice the following:

* As to each person whom the stockholder proposes to nominate for election or reelection as a director all the information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, pursuant to Regulation 14A of the Exchange Act, as amended;
* Each person's written consent to being named a nominee and serving as a director if elected;
* The name and address of the proposing stockholder or beneficial owner; and
* The class and number of shares of the Company held directly or indirectly by the proposing stockholder.

### Shareholder Nominees

No shareholder proposed director nominees were submitted to the Nominating and Corporate Governance Committee for consideration at this year's Annual Meeting.

### Directors Compensation

Outside directors receive an annual retainer of $30,000, plus $1,250 for each Board of Directors or committee meeting attended and for any additional day of service committed to the Company. Committee chairpersons receive an additional $1,000 for each committee meeting attended. The Chairman of the Board of Directors receives an additional $50,000 annually for serving in that capacity. Directors who are full-time employees of the Company or its subsidiaries receive no additional compensation for serving on the Board of Directors.

Each outside director received on May 6, 2004, options to purchase 3,000 shares of the Company's Common Stock under the provisions of the 2002 Stock Incentive Plan (the "2002 Option Plan"). The purchase price for the options is the market price of the Common Stock on the date granted. The options will become exercisable in increments, over three years, commencing with the first anniversary of the grant. Additional options to purchase 3,000 shares of Common Stock will be granted to each outside director on the date of each Annual Meeting of Shareholders during the 10-year term of the 2002 Option Plan. All options granted to the outside directors will expire 10 years after the date of each grant.

Outside directors may defer their compensation until retirement or termination of their status as directors. Amounts deferred bear interest at 150% of the Moody's Seasoned Corporate Bond Rate. At retirement or termination, such deferrals will be paid out over 5, 10, 15, or 20 years and be credited during the applicable payment period with interest at 150% of the average of the Moody's Seasoned Corporate Bond Rate on January 1 for the five years prior to distribution.

The Company also provides a retirement plan for certain current non-management directors. Non-management directors elected to the Board prior to the 2003 Annual Meeting of Shareholders are eligible to participate in the plan. Under the provisions of the plan, a non-management director who satisfies the plan age and years of service requirements can retire and receive a benefit equal to the annual retainer at the director's retirement.

### Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee through the 2004 Annual Meeting of Shareholders were directors Judd, Cortez, Hanneman, Hartley, Kropid, and Sparks. After the Annual Meeting, the members of the committee were directors Sparks, Hanneman, Kropid, and Melarkey, the current members of the committee. None of the members have ever been an officer or employee of the Company or any of its subsidiaries, and no "compensation committee interlocks" existed during 2004.

### Director Attendance at Annual Meetings

The Company normally schedules Board meetings in conjunction with the Annual Meeting and expects that each of the directors will attend the Board and Annual meetings. Last year, all of the director nominees attended the 2004 Annual Meeting. The four directors who were not standing for election, however, did not attend the Annual Meeting.

## Shareholder Communications with Directors

Company shareholders who want to communicate with the Board, the Presiding Director, or any individual directors can write to:

Southwest Gas Corporation
Corporate Secretary
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510

Depending on the subject matter, management will: (i) forward the communication to the director or directors to whom it is addressed; (ii) attempt to handle the inquiry directly, for example where it is a request for information about the Company or it is a stock-related matter; or (iii) not forward the communication if it is primarily commercial in nature or if it relates to an improper or irrelevant topic. If the communication is addressed to the Presiding Director, the communication will be forwarded directly to the Presiding Director and not processed by management. At each Board meeting, a member of management will present a summary of all communications received since the last meeting that were not forwarded and make such communications available to the directors.

# ELECTION OF DIRECTORS
***(Item 1 on the Proxy Card)***

## Names and Qualifications of Nominees

Each director elected at the Annual Meeting of Shareholders will serve until the next Annual Meeting and until his or her successor shall be elected and qualified. Eleven of the nominees were elected to their present term of office at the last Annual Meeting on May 6, 2004. Jeffrey W. Shaw was elected in July 2004. The 12 nominees for director receiving the highest number of votes will be elected to serve until the next Annual Meeting.

The names of the nominees for election to the Board of Directors, the principal occupation of each nominee and his or her employer for the last five years or longer, and the principal business of the corporation or other organization, if any, in which such occupation or employment is carried on, follow.

**George C. Biehl**
Executive Vice President, Chief Financial Officer & Corporate Secretary
Southwest Gas Corporation

Director Since: 1998
Board Committees: Pension Plan Investment

Mr. Biehl, 57, joined the Company in 1990 as Senior Vice President and Chief Financial Officer after serving in a number of capacities with Deloitte Haskins & Sells (now Deloitte & Touche) for 16 years and as chief financial officer for PriMerit Bank for the five years before joining the Company. He assumed the responsibilities as Corporate Secretary for the Company in 1996 and was named Executive Vice President in 2000. Mr. Biehl graduated from Ohio State University with a degree in accounting and earned his MBA with an emphasis in finance from Columbia University. He is a member of the American Institute of Certified Public Accountants, a member of the Las Vegas Chamber of Commerce Leadership Las Vegas Program, and serves on various committees of several trade associations.

**Thomas E. Chestnut**
Owner, President and CEO
Chestnut Construction Company

Director Since: May 2004
Board Committees: Audit, Nominating and Corporate Governance

Mr. Chestnut, 53, after serving in Vietnam with the U.S. Army, began a career in the construction industry in 1972 with Del Webb Corporation. Leaving Del Webb in 1980 as manager of commercial operations, Mr. Chestnut took a position with The Wray Company, a commercial contractor and wholly owned subsidiary of Weyerhaeuser Company. He remained with Wray until 1990 when he founded Chestnut Construction Company in Tucson, Arizona. Mr. Chestnut is a past President and Life Director of the Arizona Builders Alliance, a past President of the Arizona Building Chapter of the Associated General Contractors of America, and a past Chair and Life Trustee of the Carondelet Foundation. He is a member of the Tucson Conquistadors, a member and past Director of the Centurions of St. Mary's Hospital, and a member of the Alexis de Toqueville Society of United Way of Greater Tucson. Mr. Chestnut was named the 2001 Tucson Small Business Leader of the Year by the Tucson Metropolitan Chamber of Commerce and the 2002 Arizona Small Business Person of the Year by the United States Small Business Administration.

**Manuel J. Cortez**
Retired President and Chief Executive Officer
Las Vegas Convention and Visitors Authority

Director Since: 1991
Board Committees: Audit (Chairman), Nominating and Corporate Governance

Mr. Cortez, 66, retired as president and chief executive officer of the Las Vegas Convention and Visitors Authority ("LVCVA") in 2004. Prior to his positions at the LVCVA, he served four terms (1977-1990) on the Clark County Commission and is a former chairman of the Commission. He has been active on various boards, including the Environmental Quality Policy Review Board, the Las Vegas Valley Water District Board of Directors, and the University Medical Center Board of Trustees, and served as chairman of the Liquor and Gaming Licensing Board and the Clark County Sanitation District. He has also held leadership roles with numerous civic and charitable organizations such as Boys and Girls Clubs of Clark County, Lied Discovery Children's Museum, and Big Brothers—Big Sisters. He presently serves on the community board of St. Rose Dominican Hospitals.

**Richard M. Gardner**
Retired Partner
Deloitte & Touche LLP

Director Since: May 2004
Board Committees: Audit, Nominating and Corporate Governance

Mr. Gardner, 67, obtained his degree in accounting from Brigham Young University in 1963 and was employed by Deloitte & Touche in its Los Angeles and Phoenix offices until his retirement in 2000. As an audit partner for 27 years, he served clients in various industries and in several management capacities including Professional Practice Director for the Los Angeles area offices. He is a member of the American Institute of Certified Public Accountants and has been active in numerous civic, educational and charitable boards.

**LeRoy C. Hanneman, Jr.**
Chairman and Chief Executive Officer
Element Homes, LLC

Director Since: 2003
Board Committees: Compensation, Pension Plan Investment

Mr. Hanneman, 58, received his undergraduate degree in construction engineering from Arizona State University. He is the chief executive officer of Element Homes, a homebuilding and real estate development company with projects in the metropolitan Phoenix, Arizona area. Mr. Hanneman is a 30-year veteran of the housing industry and former president, chief operating and executive officer of Del Webb Corp. He has served on a number of charitable organization boards including United Way, Boy Scouts of America and Boys and Girls Clubs of America.

**Thomas Y. Hartley**
Chairman of the Board of Directors
Southwest Gas Corporation

Director Since: 1991
Board Committees: Audit, Nominating and Corporate Governance

Mr. Hartley, 71, obtained his degree in business from Ohio University in 1955, and was employed in various capacities by Deloitte Haskins & Sells (now Deloitte & Touche) from 1959 until his retirement as an area managing partner in 1988. From 1991 to 1999 he was president and chief operating officer of Colbert Golf Design and Development. He joined Southwest Gas Corporation as Director in 1991 and was elected Chairman of the Board of Directors in 1997. Mr. Hartley is actively involved in numerous business and civic activities. He is a past chairman of the UNLV Foundation and the Nevada Development Authority, and a past president of the Las Vegas Founders Club. He has also held voluntary executive positions with the Las Vegas Founders Golf Foundation, the Las Vegas Chamber of Commerce, and the Boulder Dam Area Council of the Boy Scouts of America. He is a past president of the PGA Tour Tournaments Association. He is a director of Sierra Health Services, Inc. and MediCor Ltd.

**James J. Kropid**
President
James J. Kropid Investments

Director Since: 1997
Board Committees: Compensation, Pension Plan Investment (Chairman)

Mr. Kropid, 67, received his undergraduate degree from DePaul University and participated in the executive development program at the University of Illinois. He joined Centel Corporation in 1961 and became president of its Central Telephone Company-Nevada/Texas division in 1987. In 1993, the Governor of Nevada appointed him to the position of general manager of the Nevada State Industrial Insurance System, a position in which he served for almost two years. He is currently president of his own investment company. Mr. Kropid is involved in many civic and charitable organizations. In 2003, Mr. Kropid served as the interim executive director of the United Way of Southern Nevada and is on the board of directors of that organization. He is a past president of the Boulder Dam Area Council of the Boy Scouts of America and presently serves on that board, a trustee and treasurer of Catholic Charities of Southern Nevada, a trustee of the Desert Research Institute Foundation and a past chairman of the YMCA of Southern Nevada.

**Michael O. Maffie**
Retired Chief Executive Officer
Southwest Gas Corporation

Director Since: 1988
Board Committees: Pension Plan Investment

Mr. Maffie, 57, joined the Company in 1978 as Treasurer after seven years with Arthur Andersen & Co. He was named Vice President/Finance and Treasurer in 1982, Senior Vice President and Chief Financial Officer in 1984, Executive Vice President in 1987, President and Chief Operating Officer in 1988, President and Chief Executive Officer in 1993 and Chief Executive Officer in 2003, until his retirement in 2004. He received his undergraduate degree in accounting and his MBA in finance from the University of Southern California. He serves as a director of Boyd Gaming Corporation and was a director of Del Webb Corporation and Wells Fargo Bank/Nevada Division. A member of various civic and professional organizations, he served as chairman of the board of trustees of the UNLV Foundation and is a past chairman of the Board of United Way of Southern Nevada. He also is a past director of the Western Energy Institute and the American Gas Association.

**Michael J. Melarkey**
Partner
Avansino, Melarkey, Knobel & Mulligan

Director Since: May 2004
Board Committees: Compensation, Pension Plan Investment

Mr. Melarkey, 55, a partner in the law firm of Avansino, Melarkey, Knobel & Mulligan received his undergraduate degree from the University of Nevada, Reno, his law degree from the University of San Francisco and his masters in laws in taxation from New York University. He has been in private legal practice in Reno, Nevada, since 1976. Mr. Melarkey is a member of the American Bar Association, the International Association of Gaming Lawyers and the State Bar of Nevada. He is a Trustee of the Bretzlaff Foundation, a Trustee of the Robert S. and Dorothy J. Keyser Foundation, and Vice President of the E. L. Wiegand Foundation. He is Vice President of Miami Oil Producers, Inc. and serves as a director of the Gabelli Dividend and Income Trust and the Gabelli Global Utility and Income Trust, both closed end mutual funds.

**Jeffrey W. Shaw**
Chief Executive Officer
Southwest Gas Corporation

Director Since: July 2004
Board Committees: None

Mr. Shaw, 46, joined the Company in 1988 as Director of Internal Audit. He was promoted to Controller and Chief Accounting Officer in 1991, Vice President/Controller and Chief Accounting Officer in 1993, Vice President and Treasurer in 1994, Senior Vice President/Finance and Treasurer in 2000, Senior Vice President/Gas Resources and Pricing in 2002, President in 2003 and Chief Executive Officer in June 2004. Mr. Shaw received a BS in accounting from the University of Utah in 1983 and worked for Arthur Andersen & Co. in its Dallas and Las Vegas offices prior to joining Southwest Gas. He is a member of the American Institute of Certified Public Accountants, the Nevada Society of CPAs, and the Leadership Las Vegas Alumni Association. Mr. Shaw serves on the Board of the American Gas Association, the Western Energy Institute and the Las Vegas International Scouting Museum, and is active with the Boy Scouts of America.

**Carolyn M. Sparks**
President
International Insurance Services, Ltd.

Director Since: 1988
Board Committees: Compensation (Chairperson), Pension Plan Investment

Mrs. Sparks, 63, graduated from the University of California Berkeley in 1963, and with her husband, co-founded International Insurance Services, Ltd., in Las Vegas, Nevada, in 1966. She served on the University and Community College System of the Nevada Board of Regents from 1984 to 1996, and in 1991 was elected to a two-year term as chair of the Board of Regents. Mrs. Sparks is actively involved with numerous charitable and civic organizations, including founding and chairing the University Medical Center Foundation and the Children's Miracle Network Telethon. She is the chairperson of the Nevada Children's Center Foundation, president of the Salvation Army Advisory Board, vice president of Nevada Ballet Theater and was founding president of the Nevada International Women's Forum. She also serves on the Foundation Boards of the University of Nevada Las Vegas and the Community College of Southern Nevada.

**Terrence "Terry" L. Wright**
Owner/Chairman of the Board of Directors
Nevada Title Company

Director Since: 1997
Board Committees: Audit, Nominating and Corporate Governance (Chairman)

Mr. Wright, 55, received his undergraduate degree in business administration and his juris doctor from DePaul University. He joined Chicago Title Insurance Company while in law school and after graduation remained with the company and eventually moved to the Las Vegas, Nevada office. In 1978, he acquired the assets of Western Title to form what is now known as Nevada Title Company. Mr. Wright is the chairman of the board and majority owner of Westcor Land Title Insurance Company, which has operations in Florida, Texas, Arizona, California and Nevada. He is a member of the California and Illinois bar associations and has served on the board of directors for Nevada Land Title Association, the Las Vegas Monorail and the Tournament Players Club at Summerlin. He is a past-chairman of the Nevada Development Authority and the Nevada Chapter of the Young President's Organization. Mr. Wright is also the chairman of the UNLV Foundation.

## Securities Ownership by Directors, Director Nominees, Executive Officers, and Certain Beneficial Owners

*Directors, Director Nominees and Executive Officers.* The following table discloses all Common Stock of the Company beneficially owned by the Company's directors, the nominees for directors and the executive officers of the Company, as of March 8, 2005.

| Directors, Nominees & Executive Officers | No. of Shares Beneficially Owned (1) | Percent of Outstanding Common Stock (2) |
|---|---|---|
| George C. Biehl | 121,418(3)(4) | * |
| Thomas E. Chestnut | 3,200(5) | * |
| Manuel J. Cortez | 21,738(6) | * |
| Richard M. Gardner | 2,342(7) | * |
| LeRoy C. Hanneman, Jr. | 3,989(8) | * |
| Thomas Y. Hartley | 39,930(6)(9) | * |
| James J. Kropid | 19,710(10) | * |
| Michael O. Maffie | 235,204(11) | * |
| Michael J. Melarkey | 7,165(12) | * |
| Jeffrey W. Shaw | 89,499(3)(13) | * |
| Carolyn M. Sparks | 26,191(6) | * |
| Terrence L. Wright | 16,210(14) | * |
| James P. Kane | 79,827(15) | * |
| Thomas R. Sheets | 26,194(3)(16) | * |
| Dudley J. Sondeno | 48,839(17) | * |
| Other Executive Officers | 256,299(18) | * |
| Total | 997,755 | 2.68% |

(1) The Common Stock holdings listed in this column include performance shares granted to the Company's executive officers under the Company's Management Incentive Plan for 2002, 2003, and 2004.

(2) No individual officer or director owned more than 1% of the Company's Common Stock.

(3) Number of shares does not include 6,618 shares held by the Southwest Gas Corporation Foundation, which is a charitable trust. Messrs. Biehl, Shaw and Sheets are trustees of the Foundation but disclaim beneficial ownership of said shares.

(4) The holdings include 61,500 shares which Mr. Biehl has the right to acquire through the exercise of options under the Option Plans.

(5) The holdings include 1,200 shares (all of which will become exercisable within 60 days) which Mr. Chestnut will have the right to acquire through the exercise of options under the Option Plans.

(6) The holdings include 19,300 shares (3,000 of which will become exercisable within 60 days) which certain of the non-employee directors have the right to acquire through the exercise of options under the Option Plans.

(7) The holdings include 1,200 shares (all of which will become exercisable within 60 days) which Mr. Gardner will have the right to acquire through the exercise of options under the Option Plans.

(8) The holdings include 2,000 shares over which Mr. Hanneman has shared voting and investment control with his spouse and 1,989 shares (1,200 of which will become exercisable within 60 days) which Mr. Hanneman will have the right to acquire through the exercise of options under the Option Plans.

(9) Number of shares include 387 shares over which Mr. Hartley has shared voting and investment control with his spouse through a family trust. Mr. Hartley also holds 8,000 shares of Preferred Trust Securities issued by the Company's financing subsidiary, Southwest Gas Capital II.

(10) The holdings include 15,960 shares (3,000 of which will become exercisable within 60 days) which Mr. Kropid has the right to acquire through the exercise of options under the Option Plans and 3,750 shares over which he has shared voting and investment power with his spouse through a family trust. The family trust also holds 1,500 shares of Preferred Trust Securities issued by Southwest Gas Capital II. Mrs. Kropid's separate property trust holds 1,000 shares of Preferred Trust Securities issued by Southwest Gas Capital II.

(11) The holdings include 185,000 shares which Mr. Maffie has the right to acquire through the exercise of options under the Option Plans and 1,054 shares over which his spouse has voting and investment control.

(12) The holdings include 700 shares over which Mr. Melarkey has shared voting and investment control through a profit sharing plan and 1,200 shares (all of which will become exercisable within 60 days) which Mr. Melarkey will have the right to acquire through the exercise of options under the Option Plans.

(13) The holdings include 48,000 shares which Mr. Shaw has a right to acquire through the exercise of options under the Option Plans.

(14) The holdings include 15,960 shares (3,000 of which will become exercisable within 60 days) which Mr. Wright has the right to acquire through the exercise of options under the Option Plans.

(15) The holdings include 46,500 shares which Mr. Kane has the right to acquire through the exercise of options under the Option Plans.

(16) The holdings include 7,500 shares which Mr. Sheets has the right to acquire through the exercise of options under the Option Plans.

(17) The holdings include 25,570 shares which Mr. Sondeno has the right to acquire through the exercise of options under the Option Plans.

(18) The holdings of other executive officers include 142,150 shares that may be acquired through the exercise of options under the Option Plans.

*Beneficial Owners.* Mario J. Gabelli, Marc J. Gabelli and various entities they either control or for which they act as chief investment advisors (collectively, "GAMCO") have reported that they own in excess of 5% of the Company's Common Stock, as of November 23, 2004. The Company has been advised that they do not admit that they constitute a "group" within the meaning of Section 13(d)(3) of the Exchange Act and their address is c/o Gabelli Asset Management Co., One Corporate Center, Rye, New York 10580. Lord, Abbett & Co. ("Lord Abbett") reported it owns in excess of 5% of the Company's Common Stock, as of December 31, 2004. Lord Abbett's address is 90 Hudson Street, Jersey City, New Jersey 07302. Barclays Global Investors NA ("Barclays") reported it owned in excess of 5% of the Company's Common Stock, as of December 31, 2004. Barclays' address is 45 Fremont Street, 17th FL, San Francisco, CA 94105. The holdings of these entities on the dates noted herein and as a percentage of the shares outstanding on Record Date are as follows:

| Beneficial Owners | No. of Shares Beneficially Owned | Percent of Outstanding Common Stock |
|---|---|---|
| GAMCO | 3,139,892 | 8.44% |
| Lord Abbett | 3,441,508 | 9.25% |
| Barclays | 3,362,920 | 9.04% |

**Section 16(a) Beneficial Ownership Reporting Compliance**

The Company has adopted procedures to assist its directors and executive officers in complying with Section 16(a) of the Exchange Act, as amended, which includes assisting in the preparation of forms for filing. For 2004, all but three reports were timely filed. Purchases of Company common stock by Richard M. Gardner, Director, consisting of 467 shares on August 16, 2004 and 475 shares on November 3, 2004, were reported on December 2, 2004. A sale of Company common stock by Thomas J Armstrong, Senior Vice President/Gas Resources & Energy Services, consisting of 341 shares on October 8, 2004, was reported on November 11, 2004.

## EXECUTIVE COMPENSATION AND BENEFITS

### Executive Compensation Report

The Compensation Committee of the Board of Directors (the "Committee") administers the Company's executive compensation program. Under the supervision of the Committee, the Company has developed and implemented an executive compensation program designed to satisfy the following objectives:

* reasonableness;
* competitiveness;
* internal equity; and
* performance.

These objectives are addressed through industry-based compensation comparisons and incentive plans that focus on specific annual and long-term Company financial and productivity performance goals.

*Base Compensation.* The nature of the Company's operation has historically led to the use of compensation systems widely used in industry, weighted for utility companies, and accepted by various utility regulatory agencies. Companies of comparable size, used to establish the peer group index for the "Performance Graph," were factored into the compensation review. Other utility and general industry surveys were also used to assess the Company's compensation program. Continued use of these systems is designed to address the first three compensation objectives. A range of salaries that are comparable with industry levels provides an objective standard to judge the reasonableness of the Company's salaries, maintains the Company's ability to compete for and retain qualified executive officers, and provides a means for ensuring that responsibilities are properly rewarded. Salaries for the Company's executives are set relative to the midpoint levels for their positions based on this industry comparison. Compensation above these levels is tied to achieving specific financial and productivity performance goals.

*Performance-Based Compensation.* The fourth objective of the Company's compensation program, performance, is addressed through the Company's Management Incentive Plan (the "MIP") and Option Plans, collectively referred to as the "Incentive Plans." The Incentive Plans are designed to retain key management employees and to focus on specific annual and long-term Company financial and productivity performance goals. Financial, productivity, and customer satisfaction factors are incorporated in the MIP, while the Option Plans are designed to enable executives to benefit from increases in the price of the Company's Common Stock thereby aligning their economic interests with those of the Company's shareholders.

Under the MIP, an incentive opportunity, expressed as a percentage of salary, is established annually for each executive officer. The maximum award opportunities cannot exceed 140% of the targeted awards for meeting the performance goals. Awards under the MIP are determined based on the Company's annual return-on-equity performance, customer-to-employee ratios, and customer service satisfaction targets. The financial performance factors used to make this determination involve the average of the Company's return-on-equity performance over the last three years (which is weighted and adjusted for inflation) and the Company's current utility return-on-equity performance in comparison to a peer group of natural gas distribution companies. The productivity performance factors used to make this determination involve a specific target of Company customer-to-employee ratio, actual customer-to-employee ratio in comparison to a peer group of natural gas distribution companies, and customer service satisfaction experienced throughout the Company's operating divisions as measured by an independent outside entity. Each of the five factors is equally weighed. If the threshold percentage for any factor is achieved, a percentage of annual performance awards will have been earned. While the financial factors incorporated in the MIP are significant to shareholder interests, customer satisfaction and productivity factors are significant to customer interests. In prior regulatory proceedings, the Company's regulatory commissions have insisted that these customer factors be included in the MIP in order to recover the cost of the program in the Company's natural gas rates. Regardless of whether such awards are earned, no awards will be paid unless the Common Stock dividend paid by the Company equals or exceeds the prior year's dividend.

If annual performance awards are earned and payable, payment of the awards will be subject to a possible downward adjustment depending upon satisfaction of individual performance goals. The Committee will make such a determination for the Company's chief executive officer's individual performance, who, in turn, will make a like determination for the other executive officers. Further, the annual awards will be split, with 40% paid in cash and the remaining 60% converted into performance shares tied to the value of the Company's Common Stock on the date of the awards. The performance shares will be restricted for three years and the ultimate payout in Company Common Stock will be subject to continued employment during this restricted period.

The Company's performance during 2004 exceeded the threshold for both the return-on-equity performance peer group comparison and the weighted average return-on-equity performance over the last three years. The targets for each of the three productivity factors were exceeded for 2004.

Grants under the Option Plans were provided to the Company's executive officers during 2004. The options granted were not based upon a predetermined formula, but rather on the Committee's judgment as to the individual's anticipated contribution to the future success of the Company. Information on options granted to the named executive officers in 2004 is set forth under the caption, "Executive Compensation and Benefits — Option/SARs Granted in 2004."

*CEO Compensation.* During 2004, Mr. Shaw's compensation was adjusted to reflect his promotion to his current position of Chief Executive Officer ("CEO"). At that time, Mr. Shaw's base salary was set relative to the midpoint level for salaries paid to chief executive officers of comparable companies, taking into consideration his length of service, and his targeted performance award under the MIP was set at $534,750 or 115% of his base salary as CEO. Under the MIP, the actual performance award can range from 70% to 140% for each of the performance measures, each of which represents 20% of the targeted award. Based on the Company's overall 2004 performance in relation to the established goals, Mr. Shaw earned 116% of his targeted award under the MIP, with 40% being paid in cash and 60% in performance shares.

Compensation for Mr. Maffie, who retired as CEO on May 31, 2004, consisted of the same salary components and criteria used to set Mr. Shaw's compensation. Mr. Maffie's base salary was set in July 2003 and reflected his length of service in the position of CEO. His targeted performance award under the MIP was also set at $741,750 or 115% of his base salary, however, his actual award for 2004 was determined on a pro-rata basis according to the number of months he was a full-time employee of the Company during the year. Mr. Maffie earned 116% of his targeted award pro-rated through June 1, 2004 and, because of this retirement, the entire award was paid in cash.

*Deductibility of Compensation.* The Company's executive compensation program is being administered to maintain the tax deductibility of all compensation paid to the named executive officers pursuant to Section 162(m) of the Internal Revenue Code (the "Code"). Section 162(m) of the Code provides that compensation paid to the officers in excess of $1,000,000 cannot be deducted by the

Company for federal income tax purposes unless, in general, such compensation is performance-based, is established by an independent committee of directors, is objective, and the plan or agreement providing for such performance-based compensation has been approved in advance by shareholders or is otherwise exempt from such limitation. The Incentive Plans were designed to satisfy these requirements and management believes that the compensation provided under these plans should be deductible. In the future, however, the Company may pay compensation that is nondeductible in limited circumstances if sound management of the Company so requires.

The Committee believes that the compensation program addresses the Company's compensation objectives, enhances the commitment of key management employees, and strengthens long-term shareholder value.

*Compensation Committee*

*Carolyn M. Sparks (Chairperson)*
*LeRoy C. Hanneman, Jr.*
*James J. Kropid*
*Michael J. Melarkey*

## Summary Compensation Table

The following table provides for fiscal years ended December 31, 2002, 2003, and 2004 compensation earned by the Company's chief executive officer, the Company's chief executive officer who retired in 2004 and each of the four most highly compensated executive officers of the Company at year-end 2004.

### SUMMARY COMPENSATION TABLE (1)

| | | Annual Compensation | | | Long-Term Compensation: Awards | | Long-Term Compensation: Payouts | |
|---|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary($) | Bonus($)(2) | Other Annual Compensation($)(3) | Restricted Stock Award(s) ($)(2)(4)(5) | Options/ SARs(#) | LTIP Payouts ($) | All Other Compensation ($)(6) |
| Jeffrey W. Shaw C.E.O. | 2004 | 385,820 | 248,124 | 0 | 372,186 | 75,000 | N/A | 25,714 |
| | 2003 | 251,918 | 141,700 | 0 | 212,550 | 25,000 | N/A | 20,116 |
| | 2002 | 182,695 | 61,876 | 0 | 92,813 | 15,000 | N/A | 16,103 |
| Michael O. Maffie Retired C.E.O. | 2004 | 267,870 | 358,800 | $81,760 | N/A | 0 | N/A | 48,492 |
| | 2003 | 629,055 | 323,403 | 0 | 485,105 | 50,000 | N/A | 144,535 |
| | 2002 | 596,301 | 311,190 | 0 | 466,785 | 50,000 | N/A | 133,054 |
| James P. Kane President | 2004 | 293,721 | 149,408 | 0 | 224,112 | 40,000 | N/A | 19,855 |
| | 2003 | 261,370 | 106,733 | 0 | 160,099 | 15,000 | N/A | 18,291 |
| | 2002 | 241,315 | 99,792 | 0 | 149,688 | 15,000 | N/A | 15,458 |
| George C. Biehl Executive Vice President/ Chief Financial Officer & Corporate Secretary | 2004 | 306,516 | 131,544 | 0 | 197,316 | 15,000 | N/A | 51,592 |
| | 2003 | 292,027 | 117,720 | 0 | 176,580 | 15,000 | N/A | 56,653 |
| | 2002 | 276,986 | 112,860 | 0 | 169,290 | 15,000 | N/A | 51,952 |
| Thomas R. Sheets Senior Vice President/ General Counsel | 2004 | 231,344 | 82,476 | 0 | 123,714 | 12,500 | N/A | 47,140 |
| | 2003 | 221,685 | 74,229 | 0 | 111,344 | 12,500 | N/A | 48,995 |
| | 2002 | 212,192 | 76,610 | 0 | 107,415 | 12,500 | N/A | 42,138 |
| Dudley J. Sondeno Senior Vice President/ Chief Knowledge & Technology Officer | 2004 | 227,344 | 81,084 | 0 | 121,626 | 12,500 | N/A | 46,640 |
| | 2003 | 217,685 | 72,921 | 0 | 109,382 | 12,500 | N/A | 50,511 |
| | 2002 | 208,192 | 70,290 | 0 | 105,435 | 12,500 | N/A | 45,403 |

(1) All compensation reflected in the Summary Compensation Table is reported on an earned basis for each fiscal year.

(2) MIP awards accrued for calendar years 2002, 2003, and 2004 were paid in cash and performance shares in 2003, 2004, and 2005, respectively. For Mr. Maffie, his 2004 MIP award was pro-rated for the length of time he was a full-time employee during 2004 and the pro-rated award was paid in cash because of his retirement.

(3) Compensation reported in this column consists of above-market interest earned on deferred compensation ($59,260) and director fees ($22,500) paid to Mr. Maffie after his retirement in 2004.

(4) Dividends equal to the dividends paid on the Company's Common Stock will be accrued or paid on the performance shares awarded under the long-term component of the MIP during the restriction period.

(5) The total number of performance shares granted in 2002, 2003, and 2004, for calendar years 2001, 2002, and 2003, and their value based on the market price of Company Common Stock at December 31, 2004, for the listed officers are as follows:

| | Shares | Value |
|---|---|---|
| Mr. Shaw | 18,020 | $457,708 |
| Mr. Maffie | 0 | 0 |
| Mr. Kane | 20,529 | 521,437 |
| Mr. Biehl | 23,210 | 589,534 |
| Mr. Sheets | 14,747 | 374,574 |
| Mr. Sondeno | 14,476 | 367,690 |

(6) The amounts shown in this column for each year consist of above-market interest on deferred compensation (in excess of 120% of the Applicable Federal Long-term Rate) and matching contributions under the Company's executive deferral plan.

Under the plan, executive officers may defer up to 100% of their annual compensation for payment at retirement or at some other employment terminating event. Interest on such deferrals is set at 150% of the Moody's Seasoned Corporate Bond Rate. As part of the plan, the Company provides matching contributions that parallel the contributions made under the Company's 401(k) plan, which is available to all Company employees, equal to one-half of the deferred amount, up to 6% of their annual salary. The breakdown of this compensation for each named executive officer is as follows:

| | Interest | Contributions |
|---|---|---|
| Mr. Shaw | $13,812 | $11,902 |
| Mr. Maffie | 44,771 | 3,721 |
| Mr. Kane | 10,746 | 9,109 |
| Mr. Biehl | 42,055 | 9,537 |
| Mr. Sheets | 39,941 | 7,199 |
| Mr. Sondeno | 39,566 | 7,074 |

## Options/SARs Granted in 2004

The following table sets forth the number of shares of the Company's Common Stock subject to options granted under the Option Plan to the named executive officers listed in the Summary Compensation Table during 2004, together with related information.

### OPTION/SAR GRANTS IN LAST FISCAL YEAR

| | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (2) | |
|---|---|---|---|---|---|---|
| Name | Number of Securites Underlying Options/SARs Granted (#)(1) | Percent of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price ($/Sh) | Expiration Date | 5 percent | 10 percent |
| Jeffrey W. Shaw | 75,000 | 19.95% | $23.40 | 7/26/14 | $1,105,650 | $2,790,450 |
| Michael O. Maffie | 0 | 0 | N/A | N/A | N/A | N/A |
| James P. Kane | 40,000 | 10.64 | 23.40 | 7/26/14 | 589,680 | 1,488,240 |
| George C. Biehl | 15,000 | 3.99 | 23.40 | 7/26/14 | 221,130 | 558,090 |
| Thomas R. Sheets | 12,500 | 3.32 | 23.40 | 7/26/14 | 184,275 | 465,075 |
| Dudley J. Sondeno | 12,500 | 3.32 | 23.40 | 7/26/14 | 184,275 | 465,075 |

(1) Forty percent (40%) of the options become exercisable one year after the grant. Thirty percent (30%) of the options become exercisable two years after the grant, with the remainder becoming exercisable on the third anniversary of the grant.

(2) The 5% and 10% growth rates for the period ending July 26, 2014, which were determined in accordance with the rules of the Securities and Exchange Commission ("SEC"), illustrate that the potential future value of the granted options is linked to future increases in growth of the price of the Company's Common Stock. Because the exercise price for the options equals the market price of the Company's Common Stock on the date of the grant, there will be no gain to the named executive officers without an increase in the stock price. The 5% and 10% growth rates are for illustration only and are not intended to be predictive of future growth.

## Options/SAR Exercises and Year-end Values

Shown below is information with respect to unexercised options granted under the Option Plans to the named executive officers and held by them at December 31, 2004.

### AGGREGATED OPTION/SAR EXERCISES IN 2004 AND YEAR-END OPTION/SAR VALUES

| Name | No. of Shares Acquired on Exercise | Values Realized | No. of Securities Underlying Unexercised Options/SARs at December 31, 2004 | | Value of Unexercised In-the-Money Options/SARs at December 31, 2004 (1) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable (2) | Exercisable | Unexercisable (2) |
| Jeffrey W. Shaw | 0 | $ 0 | 48,000 | 94,500 | $139,505 | $231,120 |
| Michael O. Maffie | 0 | 0 | 185,000 | 45,000 | 324,738 | 184,200 |
| James P. Kane | 0 | 0 | 46,500 | 53,500 | 112,421 | 135,260 |
| George C. Biehl | 7,500 | 48,788 | 61,500 | 28,500 | 219,359 | 85,260 |
| Thomas R. Sheets | 33,750 | 81,802 | 7,500 | 23,750 | 0 | 71,050 |
| Dudley J. Sondeno | 20,680 | 86,500 | 25,570 | 23,750 | 42,195 | 71,050 |

(1) This column represents the difference between the exercise prices for in-the-money options and the closing price of $25.40 for the Company's Common Stock on the New York Stock Exchange on December 31, 2004, times the number of in-the-money options.

(2) Unexercisable options are those options which have been granted but cannot yet be exercised due to Code restrictions on the value of incentive options, restrictions incorporated into the Option Plans, and the specific option agreements.

## Benefit Plans

*Southwest Gas Basic Retirement Plan.* The named executive officers participate in the Company's non-contributory, defined benefit retirement plan, which is available to all employees of the Company and its subsidiaries. Benefits are based upon an employee's years of service, up to a maximum of 30 years, and the employee's highest five consecutive years' salary, excluding bonuses, within the final 10 years of service.

### PENSION PLAN TABLE (1) (2)

| Annual Compensation | Years of Service 10 | 15 | 20 | 25 | 30 |
|---|---|---|---|---|---|
| $100,000 | 17,500 | 26,250 | 35,000 | 43,750 | 52,500 |
| 200,000 | 35,000 | 52,500 | 70,000 | 87,500 | 105,000 |
| 300,000 | 52,500 | 78,750 | 105,000 | 131,250 | 157,500 |
| 400,000 | 70,000 | 105,000 | 140,000 | 175,000 | 210,000 |
| 500,000 | 87,500 | 131,250 | 175,000 | 218,750 | 262,500 |
| 600,000 | 105,000 | 157,500 | 210,000 | 262,500 | 315,000 |
| 700,000 | 122,500 | 183,750 | 245,000 | 306,250 | 367,500 |
| 800,000 | 140,000 | 210,000 | 280,000 | 350,000 | 420,000 |

(1) Years of service beyond 30 years will not increase benefits under the basic retirement plan.

(2) For 2005, the maximum annual compensation that can be considered in determining benefits under the Plan is $210,000. For future years the maximum annual compensation will be adjusted to reflect changes in the cost of living as established by the Internal Revenue Service.

Compensation covered under the basic retirement plan is based on salary depicted in the Summary Compensation Table. As of December 31, 2004, the credited years of service towards retirement for the named executive officers, other than Mr. Maffie, shown in the Summary Compensation Table are as follows: Mr. Shaw, 16 years; Mr. Kane, 27 years; Mr. Biehl, 19 years; Mr. Sheets, 17 years; and Mr. Sondeno, 25 years.

Amounts shown in the pension plan table are straight life annuity amounts notwithstanding the availability of joint survivorship benefit provisions. Benefits paid under the basic and supplemental retirement plans are not reduced by any Social Security benefits received.

*Supplemental Retirement Plan.* The named executive officers also participate in the Company's supplemental retirement plan. Mr. Shaw and Mr. Sheets will be required to have 20 years of service to receive retirement benefits under the plan, while the other named officers may retire at age 55 and receive benefits under the plan. Benefits from the plan, when added to benefits received under the basic retirement plan, will equal 60% of their annual compensation. For Messrs. Shaw and Sheets, compensation is tied to a 12-month average of the highest 36-months of salary as depicted in the Summary Compensation Table. For Messrs. Biehl, Kane and Sondeno, compensation is tied to their highest 12-months of salary as depicted in the Summary Compensation Table. For Mr. Maffie, compensation was tied to his highest 12-months of salary, bonus and restricted stock awards as depicted in the Summary Compensation Table. The cost to the Company for benefits under the supplemental retirement plan for any one of the named executive officers cannot be properly allocated or determined because of the overall plan assumptions and options available.

**Severance and Change in Control Arrangements**

The Company has employment agreements ("Employment Agreements") with 9 officers (including the named executive officers other than Mr. Maffie), and change in control agreements ("Change in Control Agreements") with its remaining officers. Two officers who originally had Change in Control Agreements entered into Employment Agreements during 2004. The Employment Agreements generally provide for the payment, upon termination of employment by the Company without cause, as defined in the agreements, of up to one and one-half years of total annual compensation (base salary, a predetermined level of incentive compensation and fringe benefits), and up to three years of total annual compensation for Mr. Shaw. The Employment Agreements for each officer, other than Mr. Shaw, further provide for the payment, upon the termination of employment for "good reason," as defined in the agreements, within two years following a change in control of the Company, of an amount equal to either two or two and one-half times their total annual compensation. Under such circumstances, Mr. Shaw would be entitled to a payment equal to three times his total annual compensation. The Change in Control Agreements for the remaining officers parallel the change in control provisions of the Employment Agreements, and provide that these officers would be entitled to an amount equal to two times their annual compensation. A Change in Control Event is generally defined to include an acquisition by one person (or group of persons) of at least 20% of the ownership of the Company, the replacement of the majority of the members of the incumbent Board of Directors (excluding replacement directors nominated by the incumbent Board), or mergers and similar transactions which result in a 50% change in ownership, subject to certain exceptions.

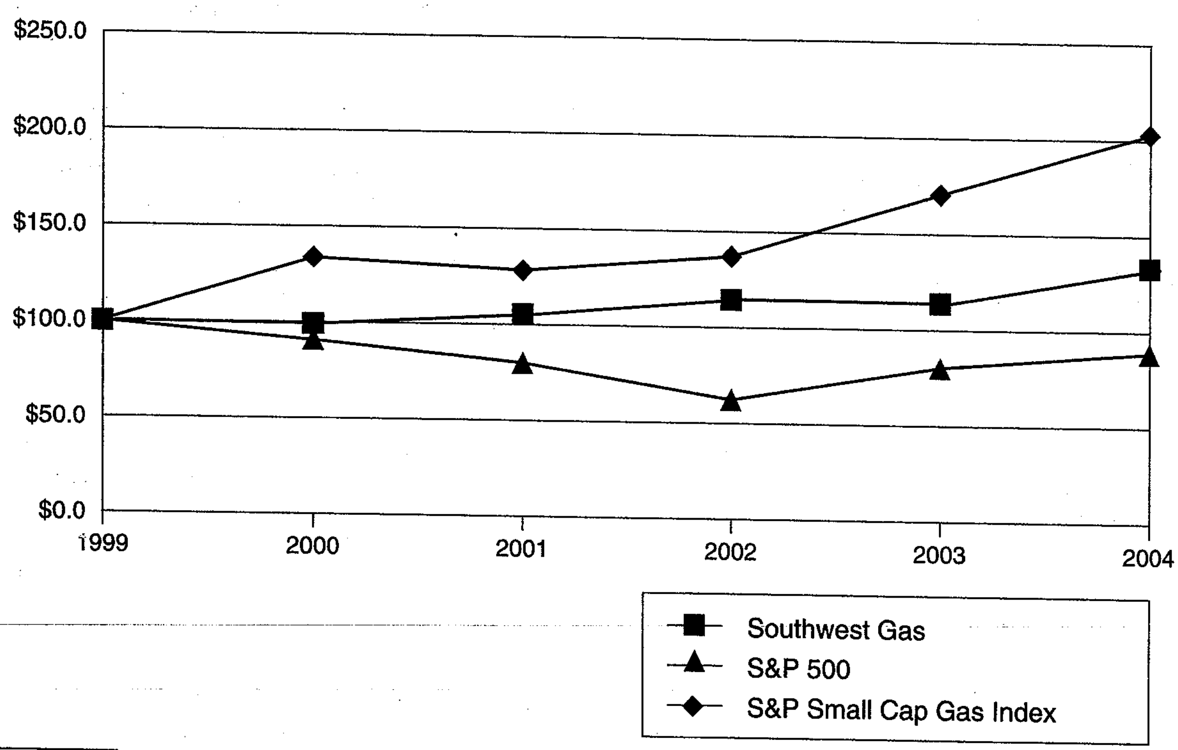
Restricted stock awards, stock options or stock appreciation rights may vest and become immediately exercisable upon a change in control. Benefits under the Supplemental Retirement Plan may also vest and/or accelerate as a result of a change in control.

If any payment under these agreements or plans would constitute a "parachute payment" subject to any excise tax under the Code, the Company would be responsible for payment of such tax. The terms of these agreements are for 24 months for each of the officers other than Mr. Shaw, whose agreement is for 36 months. Each of the agreements has been automatically extended and will continue to automatically extend annually for successive one-year periods, unless canceled by the Company.

## PERFORMANCE GRAPH

The performance graph below compares the five-year cumulative total return on the Company's Common Stock, assuming reinvestment of dividends, with the total returns on the Standard & Poor's 500 Stock Composite Index (S&P 500) and the S&P Small Cap Gas Index, consisting of the Company and 8 other natural gas distribution companies.

**Comparison of 5-Year Cumulative Total Returns**

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(1) The Company is now using the S&P Small Cap Gas Index as its peer-group index. This index should be available on a continuing basis.

(2) The S&P Small Cap Gas Index, which is weighted by year-end market capitalization, consists of the following companies: Atmos Energy Corp.; Cascade Natural Gas Corp.; Laclede Group Inc.; New Jersey Resources Corp.; Northwest Natural Gas Co.; Piedmont Natural Gas Company; Southern Union Company; the Company; and UGI Corp.

## AUDIT COMMITTEE INFORMATION

## SELECTION OF INDEPENDENT ACCOUNTANTS
***(Item 2 on the Proxy Card)***

**The Board of Directors Recommends a VOTE FOR Ratification.**

The Audit Committee of the Board of Directors has selected PricewaterhouseCoopers LLP as independent accountants for the Company for the year ending December 31, 2005, subject to ratification of the selection by shareholders. To the knowledge of the Company, at no time has PricewaterhouseCoopers LLP had any direct or indirect financial interest in or any other connection with the Company or any of its subsidiaries other than in connection with services rendered to the Company as described below.

The Audit Committee, which is composed of independent directors, meets periodically with the Company's internal auditors and independent accountants to review the scope and results of the audit function and the policies relating to auditing procedures. In making its annual recommendation, the Audit Committee reviews both the audit scope and proposed fees for the coming year.

During the calendar years 2003 and 2004, PricewaterhouseCoopers LLP provided the following audit, audit-related and other professional services for the Company. The cost and description of these services are as follows:

| | 2003 | 2004 |
|---|---|---|
| ***AUDIT FEES:*** | ***$508,100*** | ***$1,457,000*** |
| *Audit and Quarterly reviews* | *375,600* | *418,000* |
| *§404 Internal Control Attestation* | *0* | *915,000* |
| *Financing and SEC filings* | *132,500* | *124,000* |

The services include the audit of the annual financial statements included in the Company's Form 10-K, the reviews of unaudited quarterly financial statements included in the Company's Form 10-Qs, subsidiary audits, consultation and comfort letters for various financing and SEC filings, and, during 2004, the assessment of the Company's internal control over financial reporting.

| | 2003 | 2004 |
|---|---|---|
| ***AUDIT-RELATED FEES:*** | ***$68,000*** | ***$56,000*** |
| *Benefit Plan Audits* | *43,000* | *45,000* |
| *Statutory Audits* | *10,000* | *11,000* |
| *Internal Audit Plan Review* | *15,000* | *0* |

The services include benefit plan audits, statutory audits, and internal audit plan review.

| | 2003 | 2004 |
|---|---|---|
| ***TAX FEES:*** | ***$104,100*** | ***$27,700*** |
| *Tax Return Review* | *23,000* | *25,000* |
| *Tax Planning and Advice* | *81,100* | *2,700* |

The services include corporate tax return reviews and corporate tax planning and advice. The independent accountants' independence is assessed with respect to tax planning and advice services to be provided and in light of the prohibition of representing the Company on tax matters before any regulatory or judicial proceeding or providing tax services to Company executives or directors.

| | 2003 | 2004 |
|---|---|---|
| ***ALL OTHER FEES:*** | ***0*** | ***0*** |

Under its charter, the Audit Committee must pre-approve all Company engagements of PricewaterhouseCoopers LLP unless an exception to such pre-approval exists under the provisions of the Exchange Act or applicable SEC rules. At the beginning of each audit cycle, the Audit Committee will evaluate anticipated engagements of the independent accountants, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, consistent with the Committee's Pre-Approval Policy, taking into account whether the services are permissible under applicable laws and the possible impact of each non-audit service on the independent accountants' independence from management. The Audit Committee will also consider whether the independent accountants are best positioned to provide effective and efficient service, and whether the service may enhance the Company's ability to manage and control risk or improve audit quality. Throughout the year at Audit Committee meetings, updates are made on the services actually provided and fees charged by the independent accountants. Requests for the independent accountants to provide additional services are submitted to the Audit Committee or its delegate by the Company's chief financial or accounting officer, on an as-needed basis. The Audit Committee has delegated to the Chairman of the Committee the authority to evaluate and approve engagements on behalf of the Committee in the event that a need arises for pre-approval between Committee meetings. Such approvals will be made consistent with the Pre-Approval Policy and will be reported to the Committee at its next scheduled meeting.

Since the effective date of the SEC rules adopting the pre-approval requirements for services to be provided by the Company's independent accountants, each new engagement of PricewaterhouseCoopers LLP was approved in advance by the Audit Committee or its delegate, and none of those engagements made use of the *de minimis* exception to pre-approval requirement contained in the SEC rules. All of the audit-related services and tax services described above were pre-approved by the Audit Committee in 2004.

Representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting of Shareholders. They will have the opportunity to make statements, if they are so inclined, and will be available to respond to appropriate questions.

The affirmative vote of a majority of the shares present at the Annual Meeting of Shareholders in person or by proxy is necessary to ratify the selection of PricewaterhouseCoopers LLP as independent accountants for the Company. The Board of Directors recommends a **VOTE FOR** ratification of the selection of PricewaterhouseCoopers LLP as the independent accountants for the year ending December 31, 2005. If the shareholders do not ratify this appointment, other firms of certified public accountants will be considered by the Board of Directors upon recommendation of the Audit Committee.

## AUDIT COMMITTEE REPORT

The Audit Committee, which consists entirely of directors who meet the independence and experience requirements of the New York Stock Exchange, is furnishing the following report:

The Audit Committee assists the Board of Directors in fulfilling their oversight responsibility by reviewing the financial information provided to shareholders and others, the system of internal control which management and the Board have established, and the audit process. Management is responsible for maintaining internal control over the Company's financial reporting and to assess the effectiveness of such control. PricewaterhouseCoopers LLP, the Company's independent accountants, is responsible for performing an integrated audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards, attest to management's assessment of and on the effectiveness of the Company's internal control over financial reporting based on the audit, and issuing a report thereon. The role and responsibilities of the Audit Committee are to monitor and oversee these processes as set forth in a written charter adopted by the Board. The Audit Committee reviews and assesses the adequacy of the Charter at least annually and recommends any changes to the Board for approval.

In fulfilling its responsibilities for 2004, the Audit Committee:

* Reviewed and discussed the audited financial statements for the year ended December 31, 2004, with management and PricewaterhouseCoopers LLP, the Company's independent accountants;

* Discussed with the independent accountants the matters required to be discussed by the Statement on Auditing Standards, SAS No. 61, as amended; and

* Received written disclosures and a letter from the independent accountants regarding their independence as required by Independence Standards Board Standard No. 1, and discussed with the accountants their independence.

Based on the Audit Committee's reviews and discussions referred to above, the Audit Committee recommended that the Board of Directors include the audited financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the SEC.

*Audit Committee*

*Manuel J. Cortez, Chairman*
*Thomas E. Chestnut*
*Richard M. Gardner*
*Thomas Y. Hartley*
*Terrence L. Wright*

## OTHER MATTERS TO COME BEFORE THE MEETING

If any business not described herein should come before the meeting for shareholder action, it is intended that the shares represented by proxies will be voted in accordance with the best judgment of the persons voting them. At the time this proxy statement was mailed, the Company knew of no other matter which might be presented for shareholder action at the meeting.

## SUBMISSION OF SHAREHOLDER PROPOSALS

Shareholders are advised that any shareholder proposal intended for consideration at the 2006 Annual Meeting of Shareholders and inclusion in the Company's proxy materials for the meeting must be received in writing by the Company on or before November 25, 2005. If a shareholder intends to offer any proposal at such meeting without using the Company's proxy materials, notice of such intended action has to be provided to the Company on or before November 25, 2005, in order for the proposal to be presented for shareholder consideration at the Annual Meeting. All proposals must comply with applicable SEC rules. It is required that shareholders submitting proposals for inclusion in the Company's proxy materials or notices to the Company direct such proposals or notices to the Corporate Secretary of the Company and utilize Certified Mail-Return Receipt Requested in order to ensure timely delivery.

By Order of the Board of Directors

George C. Biehl

George C. Biehl
Executive Vice President/Chief Financial Officer
& Corporate Secretary