

# **Williams Capital Group West Coast Seminar**

March 22, 2017



**Southwest Gas**™  
HOLDINGS

# Participants

## **Southwest Gas Holdings, Inc.**

John P. Hester

President and Chief Executive Officer

Roy R. Centrella

Senior Vice President/Chief Financial Officer

Kenneth J. Kenny

Vice President/Finance/Treasurer

## **Southwest Gas Corporation**

Justin Lee Brown

Vice President/Regulation and Public Affairs

Theodore K. Wood

Assistant Treasurer

# Safe Harbor Statement



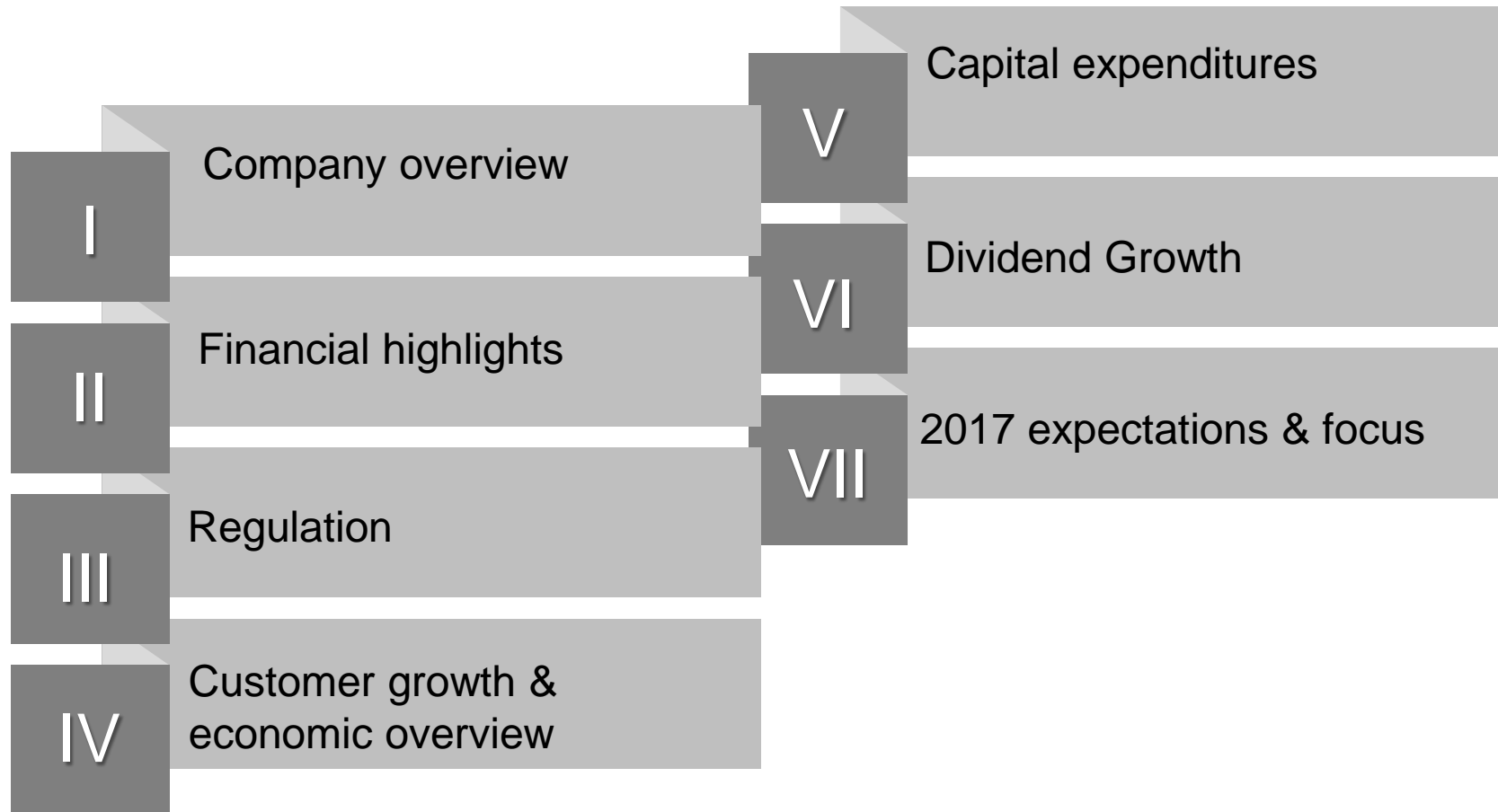
This presentation includes “forward-looking statements” as defined by the Securities and Exchange Commission (SEC). We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this presentation that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2017 expectations for our construction services and natural gas operations segments, as well as statements regarding our strategic investment opportunities.

Forward-looking statements are based on assumptions which we believe are reasonable, based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in Part I, Item 1A “Risk Factors,” and Part II, Item 7 and Item 7A “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosure about Market Risk” of our 2016 Annual Report on Form 10-K filed with the SEC, and other reports that we file with the SEC from time to time, and the following:

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

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

# Presentation Outline



# 2016 Highlights

## Consolidated Results

- Dividend increased for the 11<sup>th</sup> straight year (10%)
- Achieved record EPS of \$3.20
- 2016 Total Shareholder Return of 42.5%
- Holding Company effective January 2017

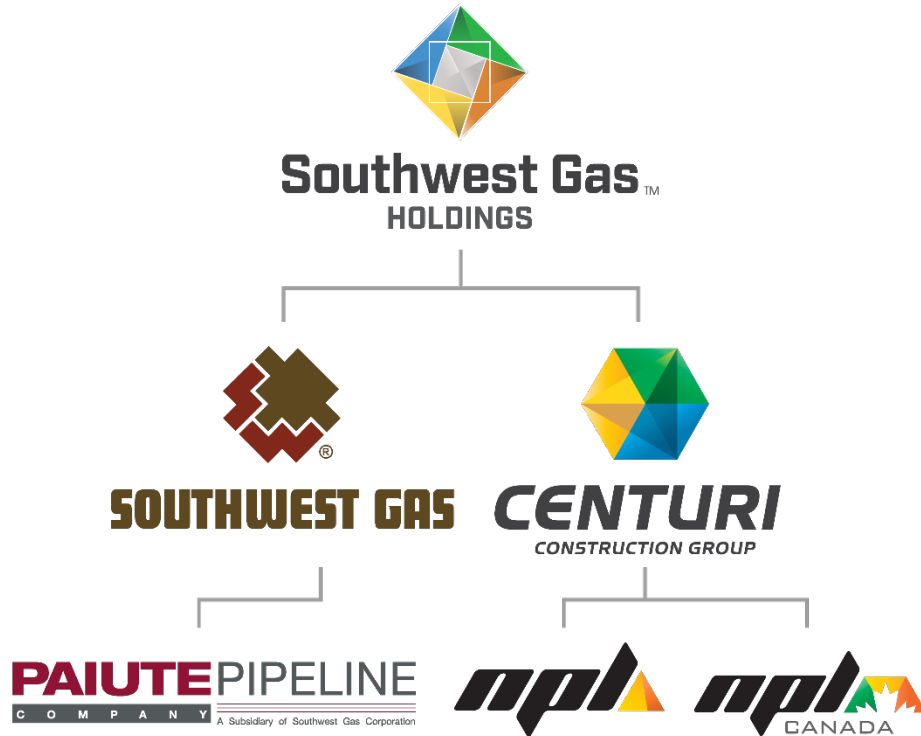
## Natural Gas Segment

- Arizona rate case proposed settlement
- Operating margin of \$924 million
- Added 28,000 customers
- Invested \$457 million in the gas system

## Construction Services Segment

- Paul Daily appointed new CEO of Centuri Construction Group
- Contributed record net income of \$32.6 million
- 4<sup>th</sup> consecutive year of increased earnings contribution
- NPL celebrating 50<sup>th</sup> anniversary in 2017

# New Holding Company Structure



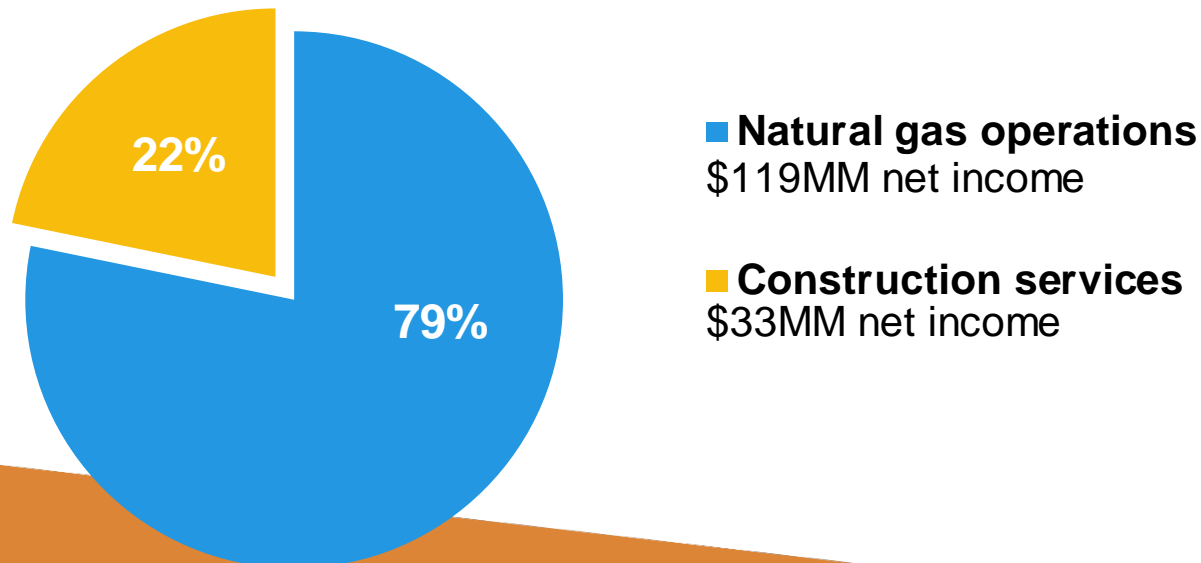
- Became fully effective on January 4, 2017
- Creates further legal and financial separation between regulated utility and unregulated construction services businesses
- Provides financing flexibility

# Two Business Segments

Southwest Gas consists of two business segments

- ☐ Natural gas operations
- ☐ Construction services (Centuri)

**TMTD 12/31/16 Net Income  
\$152MM**

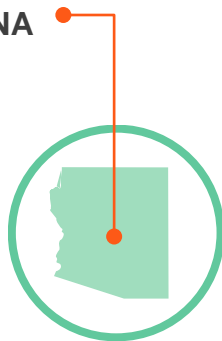


# Southwest Gas is a Regional Leader in Natural Gas Distribution

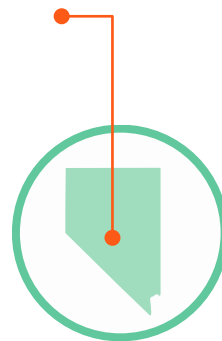


- ❑ Largest distributor of natural gas in Arizona (including Phoenix and Tucson metropolitan areas) and Nevada (including Las Vegas), and also distributes and transports gas in parts of California (including the Lake Tahoe area)
- ❑ Operates a pipeline transmission system (including an LNG storage facility) through Paiute Pipeline Company ("Paiute"), a wholly-owned subsidiary
- ❑ Headquartered in Las Vegas
- ❑ As of December 31, 2016, 1,984,000 customers, 99% of which are residential and small commercial, and total authorized rate base of approximately \$2.4 billion

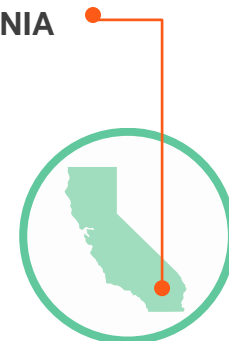
ARIZONA



NEVADA



CALIFORNIA



# Stable Customer Base

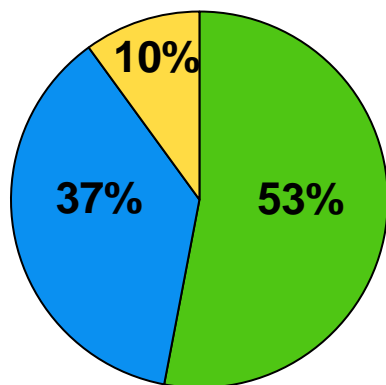
## Natural Gas Operations



### TMTD December 31, 2016 Customer & Operating Margin Distribution

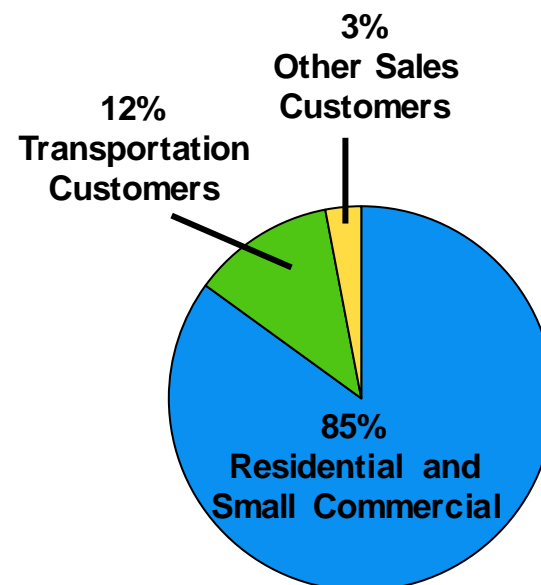
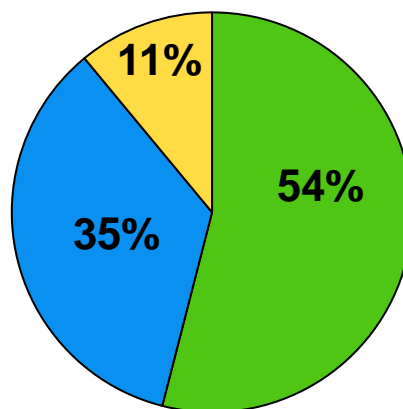
#### By State

Customers



■ Arizona  
■ Nevada  
■ California

Margin



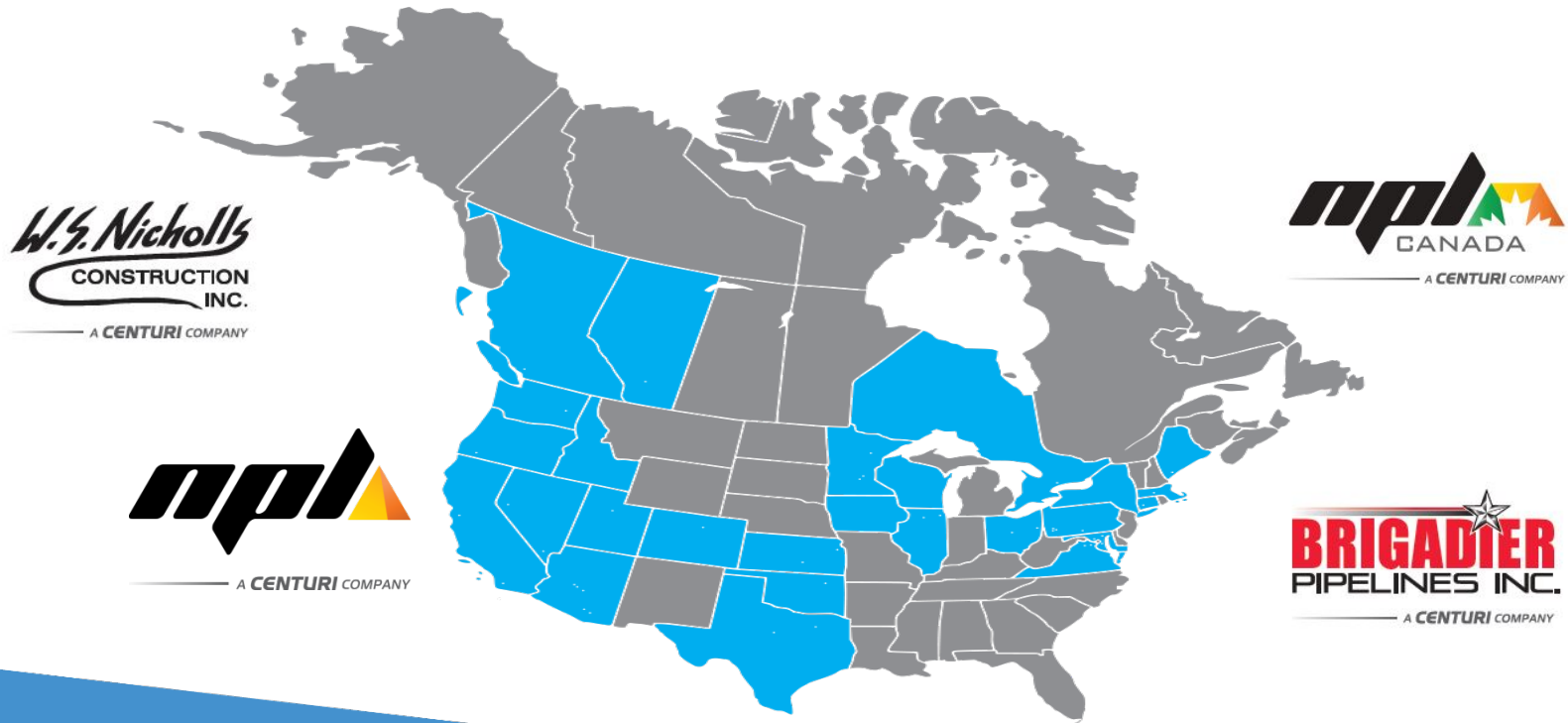
❖ Consistent trends year over year

# Centuri Construction Group

## Construction Services



- ☐ Headquartered in Phoenix, Arizona
- ☐ Operates in major markets across U.S. and Canada
- ☐ One of North America's largest full-service underground pipeline contractors



# Centuri Construction Group

## Construction Services



# Summary Operating Results

(In thousands, except per share amounts)



TWELVE MONTHS ENDED DECEMBER 31,

2014

2015

2016

## Results of Consolidated Operations

Contribution to net income - natural gas operations

\$ 116,872 \$ 111,625 \$ 119,423

Contribution to net income - construction services

24,254 26,692 32,618

Net income

\$ 141,126 \$ 138,317 \$ 152,041

Basic earnings per share

\$ 3.04 \$ 2.94 \$ 3.20

Diluted earnings per share

\$ 3.01 \$ 2.92 \$ 3.18

Average outstanding common shares

46,494 46,992 47,469

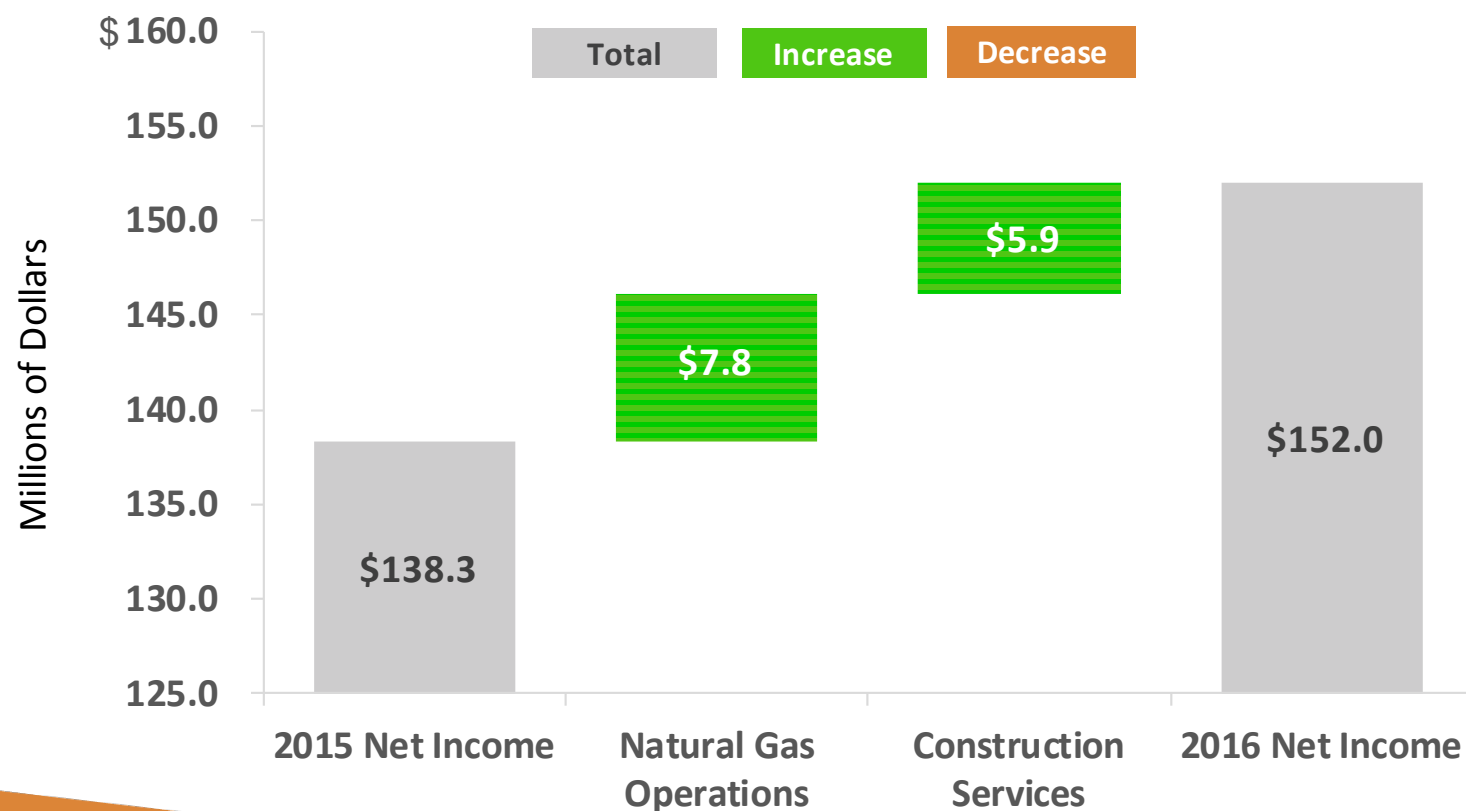
Average shares outstanding (assuming dilution)

46,944 47,383 47,814



# Consolidated Net Income

**Total Increase - \$13.7 million**



# Natural Gas Operations Highlights



Settlement reached in Arizona general rate case (subject to ACC approval)

Operating margin increased 4% compared to prior year

Realized 28,000 net new customers, an increase of 1.43%

1

2

3

4

5

6

COLI income was \$7.4 million in 2016 versus a loss of \$500,000 in 2015

Issued \$300 million of 3.8% senior notes in September 2016

Approved for \$57.3 million of replacement capital expenditures in 2017 under the Nevada Gas Infrastructure Replacement (GIR) mechanism

# Summary Operating Results

## Natural Gas Operations

(In thousands)



### TWELVE MONTHS ENDED DECEMBER 31,

2014

2015

2016

#### Results of Natural Gas Operations

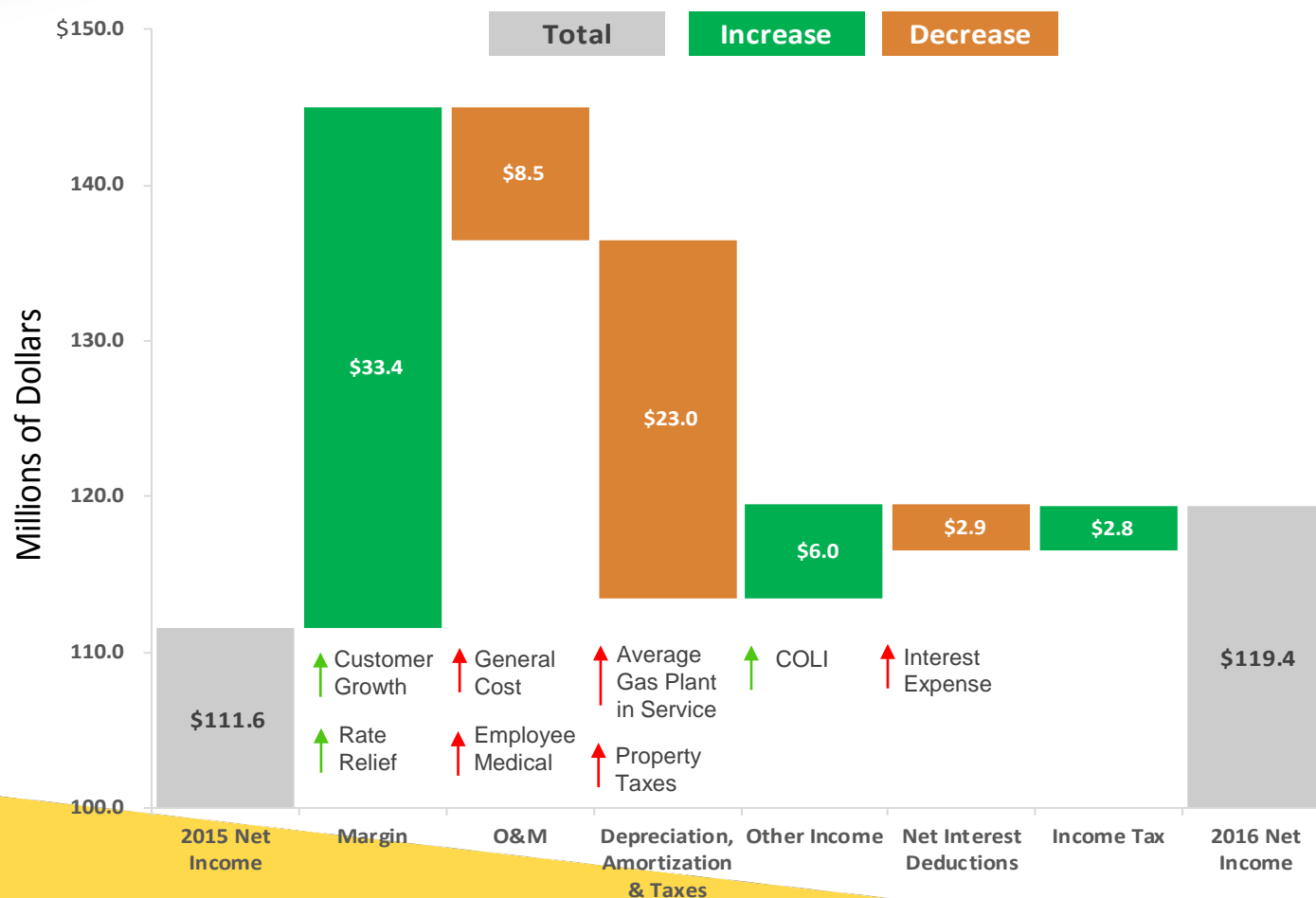
Gas operating revenues	\$ 1,382,087	\$ 1,454,639	\$ 1,321,412
Net cost of gas sold	505,356	563,809	397,121
Operating margin	876,731	890,830	924,291
Operations and maintenance expense	383,732	393,199	401,724
Depreciation and amortization	204,144	213,455	233,463
Taxes other than income taxes	47,252	49,393	52,376
Operating income	241,603	234,783	236,728
Other income	7,165	2,292	8,276
Net interest deductions	68,299	64,095	66,997
Income before income taxes	180,469	172,980	178,007
Income tax expense	63,597	61,355	58,584
Contribution to net income - gas operations	\$ 116,872	\$ 111,625	\$ 119,423

# Net Income

## Natural Gas Operations



**Total Increase - \$7.8 million**



# Construction Services Highlights



Revenues increased \$130 million, or 13%, compared to 2015

Primarily due to work performed on certain large bid projects and additional pipe replacement work

Completed bolt-on acquisition of ETTI construction businesses in May (\$17.9 million purchase price)

1

2

3

Contribution to net income increased \$5.9 million



# Summary Operating Results

## Construction Services

(In thousands)



### TWELVE MONTHS ENDED DECEMBER 31,

#### Results of Construction Services

	2014	2015	2016
Construction revenues	\$ 739,620	\$ 1,008,986	\$ 1,139,078
Operating expenses:			
Construction expenses	647,857	898,781	1,024,423
Depreciation and amortization	48,883	56,656	55,669
Operating income	42,880	53,549	58,986
Other income (deductions)	(58)	587	1,193
Net interest deductions	3,770	7,784	6,663
Income before income taxes	39,052	46,352	53,516
Income tax expense	14,776	18,547	19,884
Net income	24,276	27,805	33,632
Net income attributable to noncontrolling interest	22	1,113	1,014
Contribution to consolidated net income attributable to Centuri	\$ 24,254	\$ 26,692	\$ 32,618

# Net Income

## Construction Services

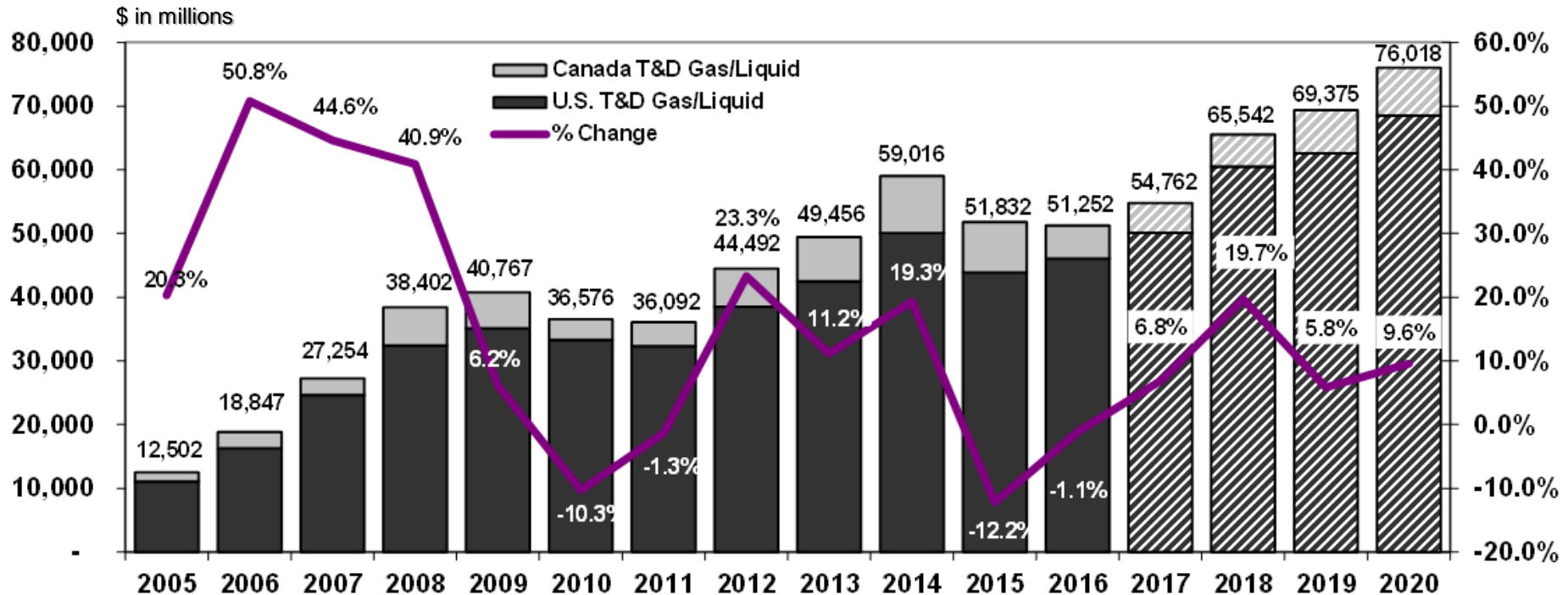


**Total Increase - \$5.9 million**



# Gas/Liquid T&D Capex Outlook

## Construction Services



Source: **Used with permission. Continuum Capital**, P.O. Box 31026, Raleigh, NC 27622. For additional information or use, please contact Mark Bridgers, Principal of Continuum Capital at (919) 345-0403, [MBridgers@ContinuumCapital.net](mailto:MBridgers@ContinuumCapital.net).

# Regulation Key Highlights

## Natural Gas Operations



### Rate Relief

- Arizona General Rate Case
- California Post Test Year (PTY) Attrition
- Next California Rate Case

### Infrastructure Replacement Programs

- Arizona COYL program
- Nevada GIR program

### Expansion Projects

- LNG facility in Arizona
- 2018 expansion project – Paiute Pipeline Company (FERC)

# Regulation – Arizona GRC

## Natural Gas Operations



Arizona General Rate Case	Southwest Gas Requested	Proposed Settlement*
Rate Relief	\$32 Million	\$16 Million
Depreciation Expense	(\$42 Million)	(\$45 Million)
Rate Base	\$1.34 Billion	\$1.32 Billion
Return on Equity	10.25%	9.50%
Capital Structure – Equity Ratio	51.7%	51.7%
Rate Case Moratorium		May 1, 2019
Full Revenue Decoupling	✓	✓
Expanded Customer-Owned Yard Line Program	✓	✓
Vintage Steel Pipe Replacement Program	✓	✓
Property Tax Tracker	✓	✓
LNG Facility Cost Recovery	✓	✓

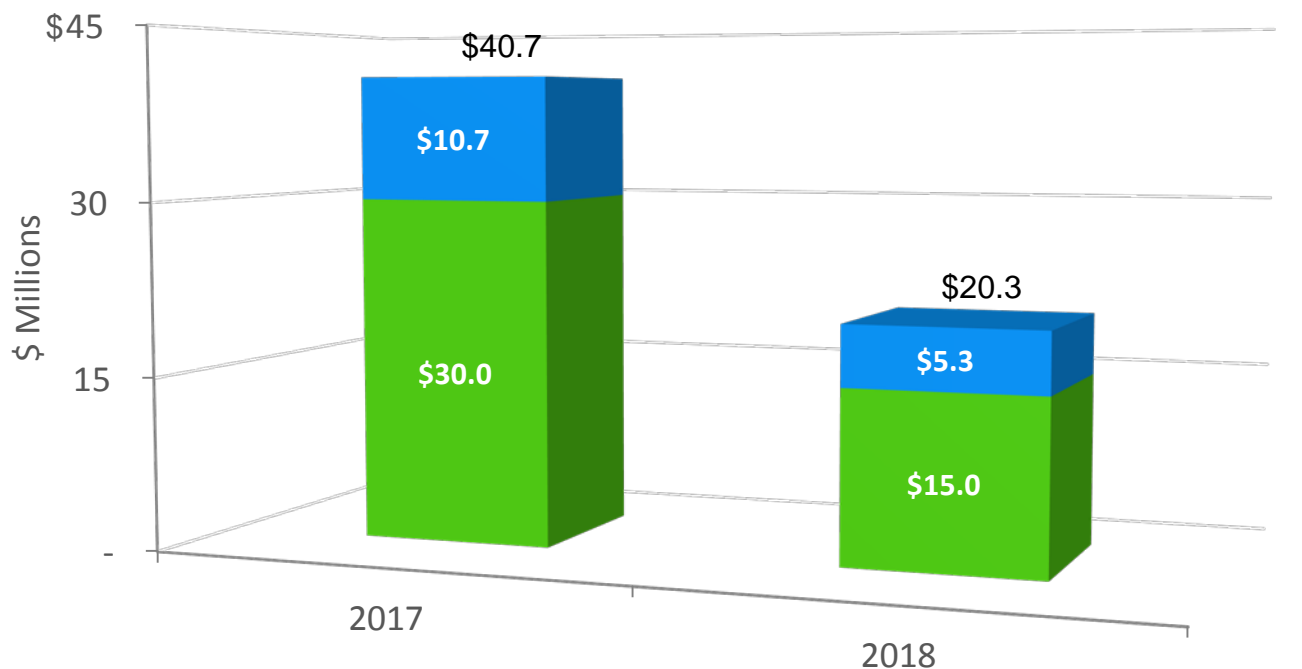
\*Proposed settlement is subject to final approval by the Arizona Corporation Commission

# Regulation – Arizona GRC

## Natural Gas Operations



Operating Income Increase – Proposed Settlement\*

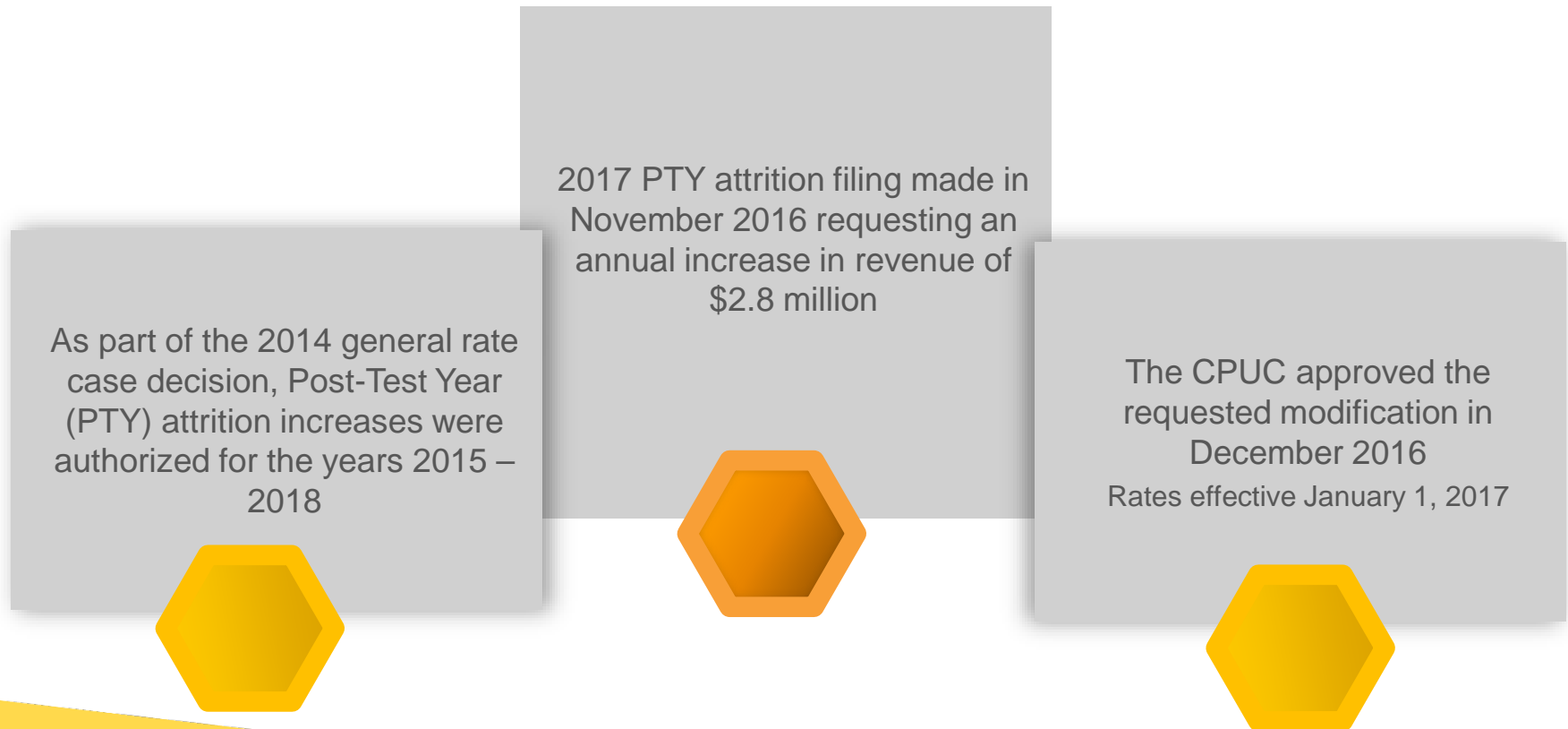


\* Assumes new rates effective May 1, 2017

■ Depreciation expense reduction  
■ Margin

# Regulation-California Attrition

## Natural Gas Operations



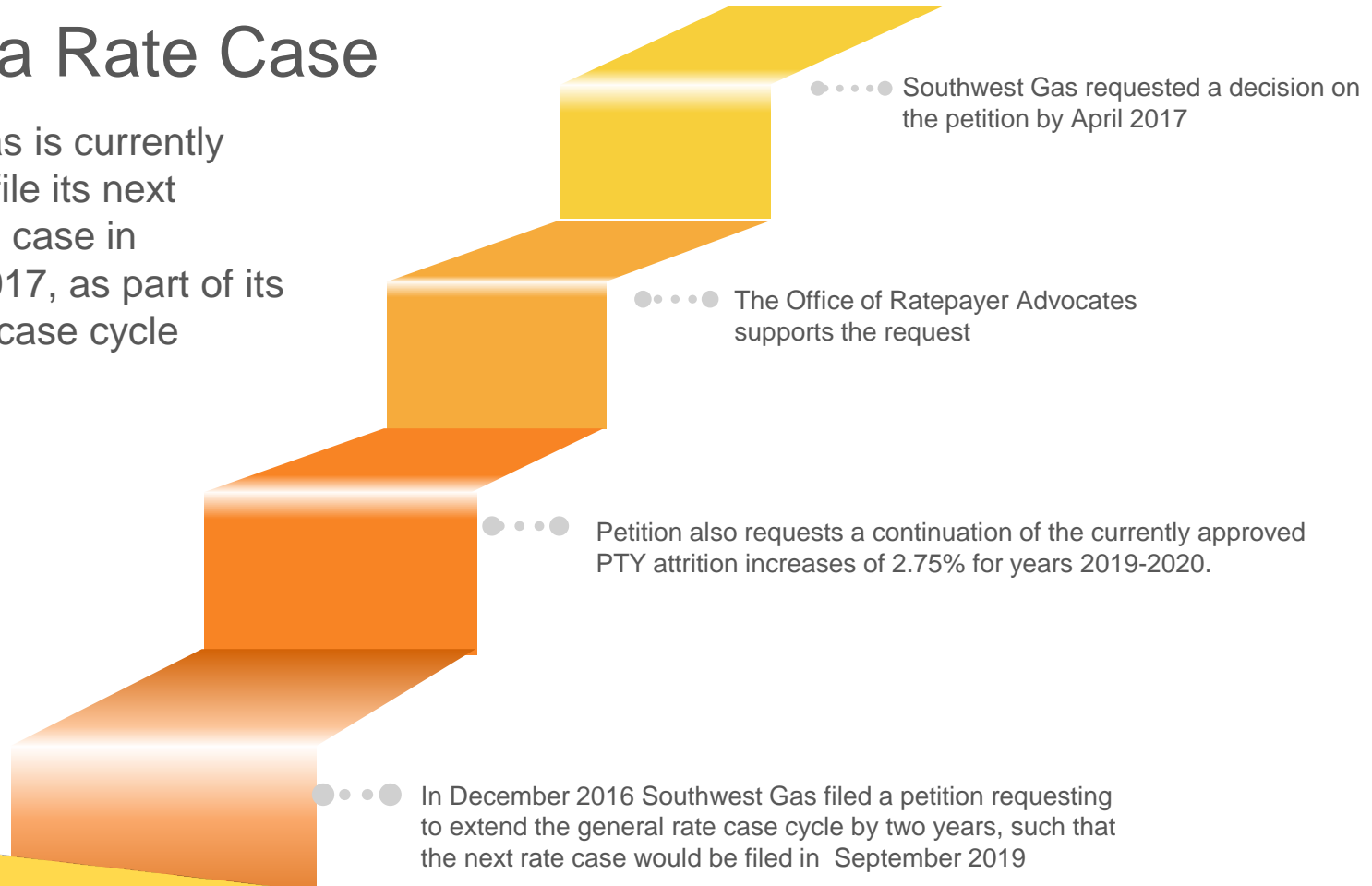
# Regulation-Next California Rate Case

## Natural Gas Operations



### California Rate Case

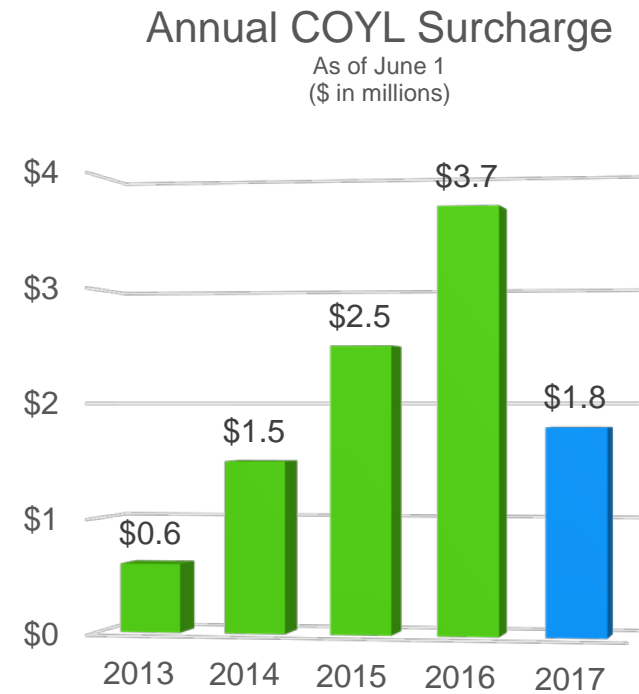
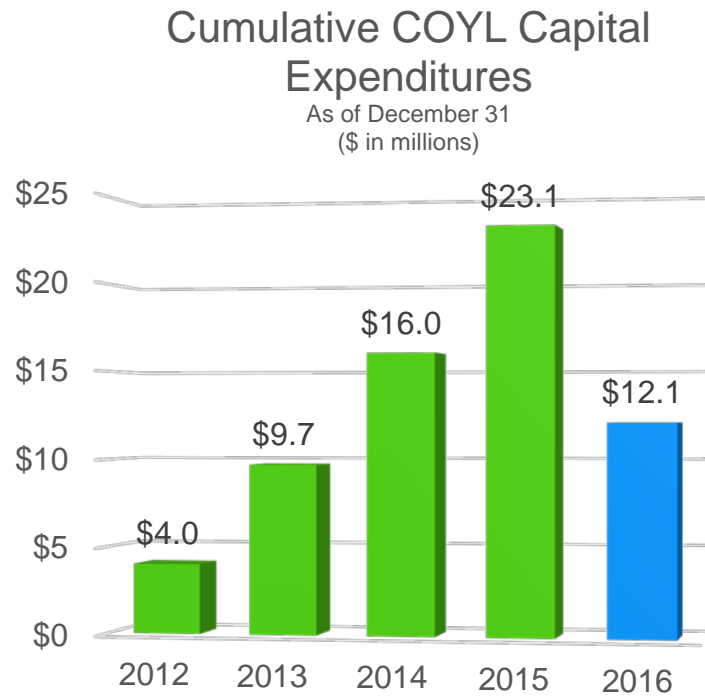
Southwest Gas is currently scheduled to file its next California rate case in September 2017, as part of its five year rate case cycle



# Regulation-Infrastructure Recovery Mechanisms



Arizona Customer Owned Yard Line (COYL) program approved as part of last rate case decision, continued with proposed settlement, and reset as of January 1, 2016

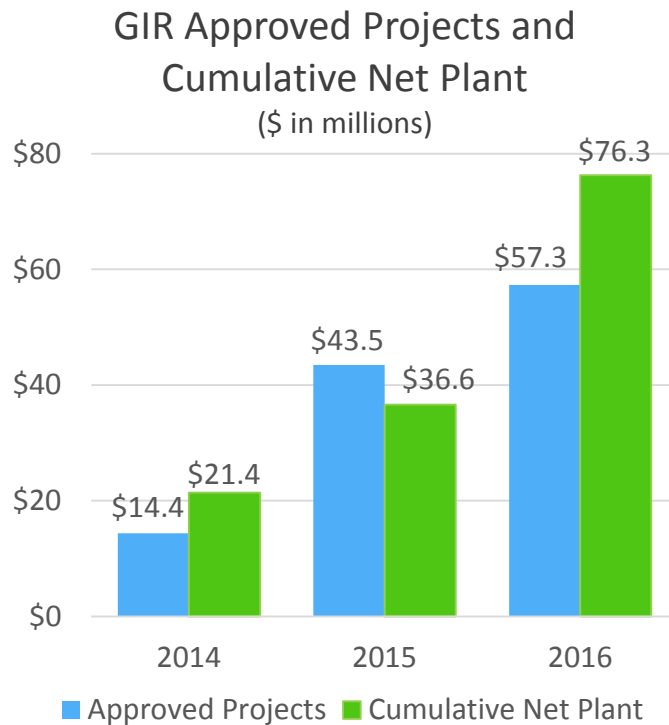


 - Requested

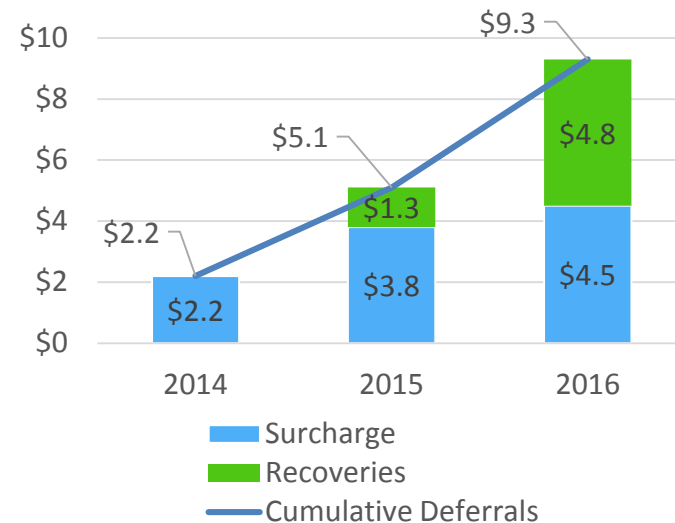
# Regulation-Infrastructure Recovery Mechanisms



## Nevada Gas Infrastructure Replacement (GIR)



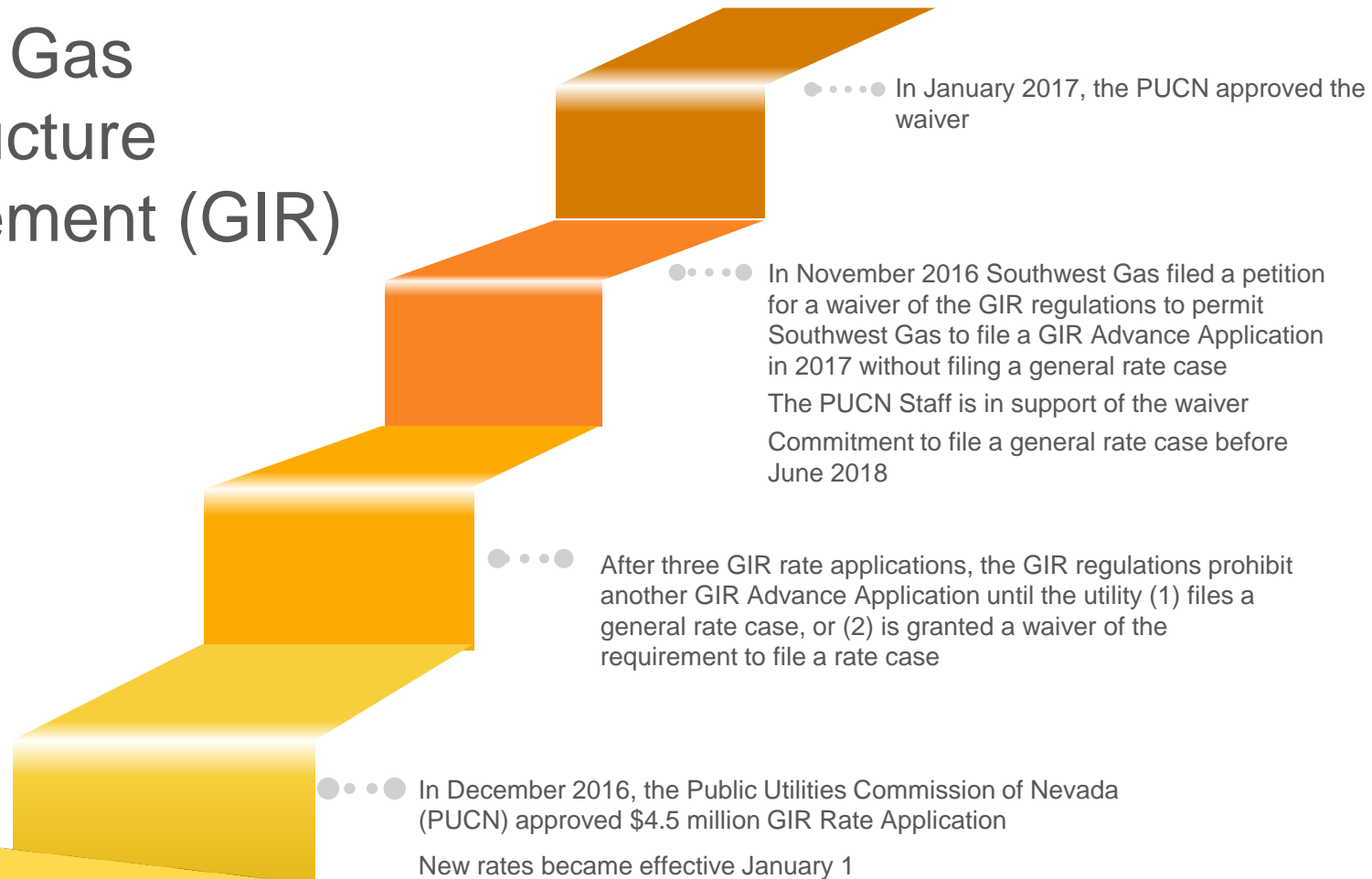
GIR Deferral Balances, Recoveries and Surcharge As of August 31  
(surcharges effective January 1 of following year)  
(\$ in millions)



# Regulation-Infrastructure Recovery Mechanisms



## Nevada Gas Infrastructure Replacement (GIR)

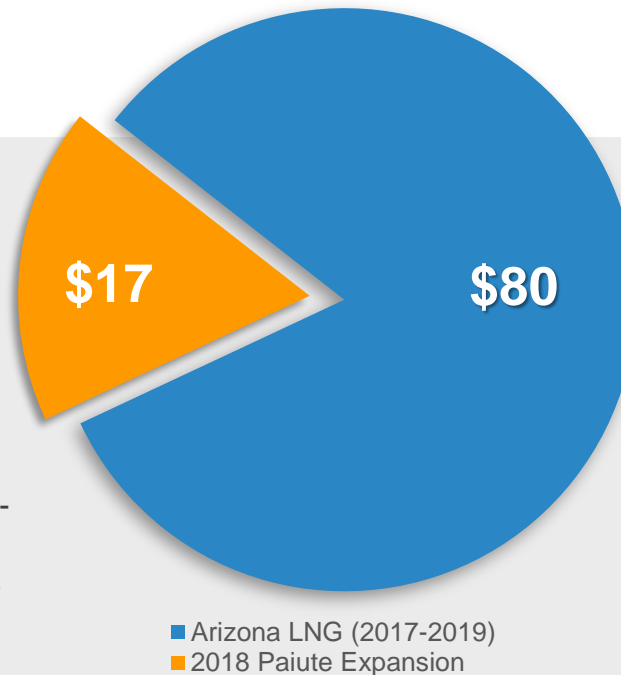


# Regulation - Expansion Projects

## Natural Gas Operations



### Expansion Projects (\$ in millions)



#### PAIUTE PIPELINE COMPANY EXPANSION

- Proposed project consists of approximately 8.4 miles of additional pipeline infrastructure and the estimated project cost is \$17 million
- In October 2016 Paiute initiated a pre-filing review process with the FERC for the expansion project and expects to file a formal certificate application by mid-2017
- If all proceeds as planned, the new facilities could be in place by the end of 2018

#### ARIZONA LNG FACILITY

- On December 19, 2016, the ACC approved the requested modification for the preapproval to reflect a new not to exceed amount of \$80 million, reflective of current market pricing to construct the proposed 233,000 dekatherm LNG facility
- Rate case settlement includes an agreement to defer revenue requirements incurred before December 31, 2020 to next rate case
- Total project capital expenditures through December 2016 of \$4.1 million, including land for the project
- Construction expected to be completed by end of 2019

# Customer Growth

## Natural Gas Operations

(In Thousands)



	Twelve Months Ended December 31,			Projected Customer Growth		
	2014	2015	2016	2017*	2018	2019
Beginning period	1,904	1,930	1,956			
Net Customer Adds	26	26	28	30-32	31-33	32-34
Ending period	<u>1,930</u>	<u>1,956</u>	<u>1,984</u>			

\*Total customers expected to exceed 2 million for the first time



# Economic Overview

## Service Area

## Natural Gas Operations



	<u>Unemployment Rate</u>		<u>Employment Growth</u>	
	<u>December 2015</u>	<u>December 2016</u>	<u>December 2015</u>	<u>December 2016</u>
<b>Southern California <sup>1</sup></b>	5.9%	5.2%	3.6%	2.9%
<b>Southern Nevada <sup>2</sup></b>	6.2%	5.0%	2.0%	2.6%
<b>Northern Nevada <sup>3</sup></b>	6.5%	5.0%	-2.4%	-0.4%
<b>Southern Arizona <sup>4</sup></b>	5.0%	4.3%	2.4%	0.4%
<b>Central Arizona <sup>4</sup></b>	4.7%	4.1%	2.9%	1.4%

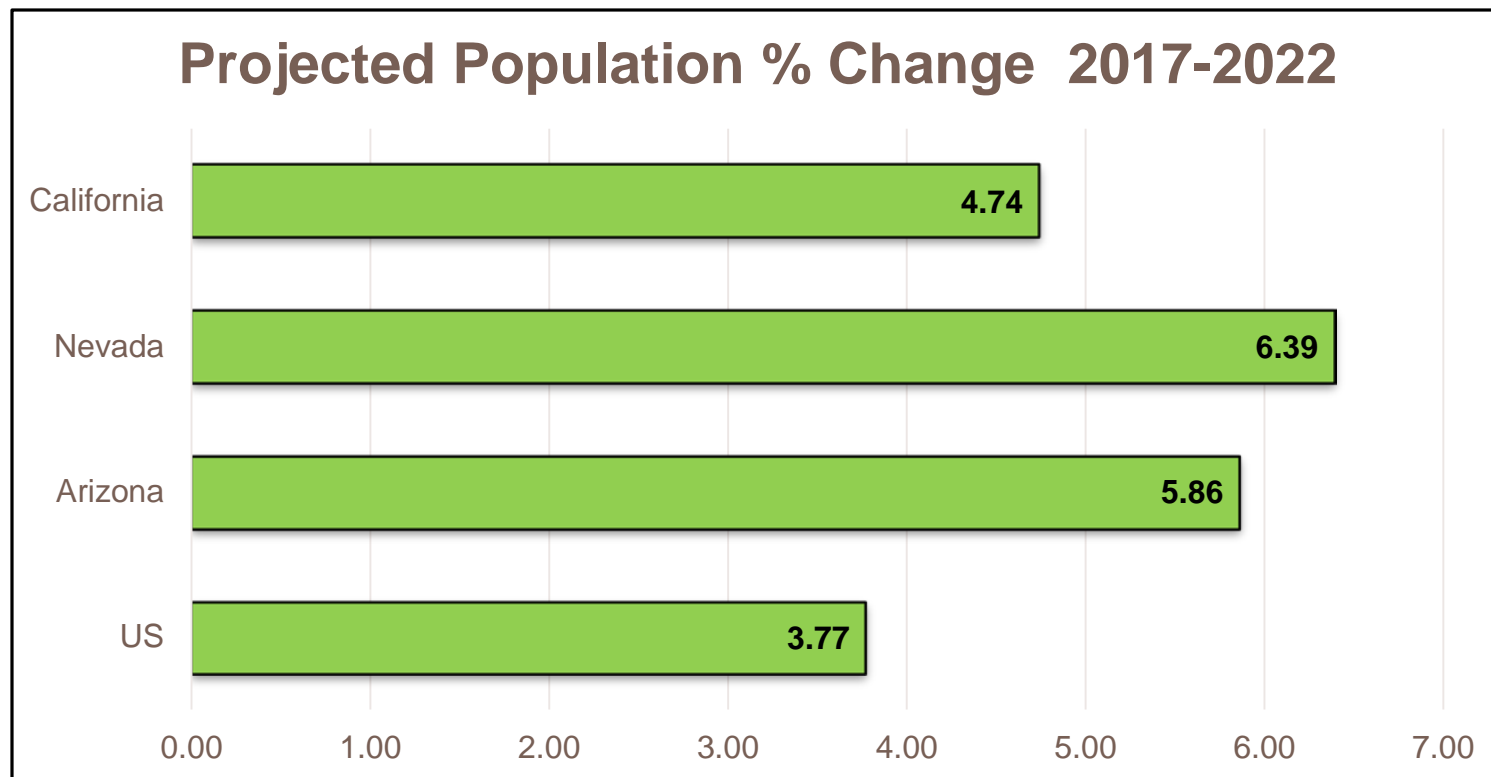
<sup>1</sup> [Source: State of California Employment Development Department, California Labor Market Review, <http://www.labormarketinfo.edd.ca.gov>]

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

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

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

# Projected Population Growth Service Territories

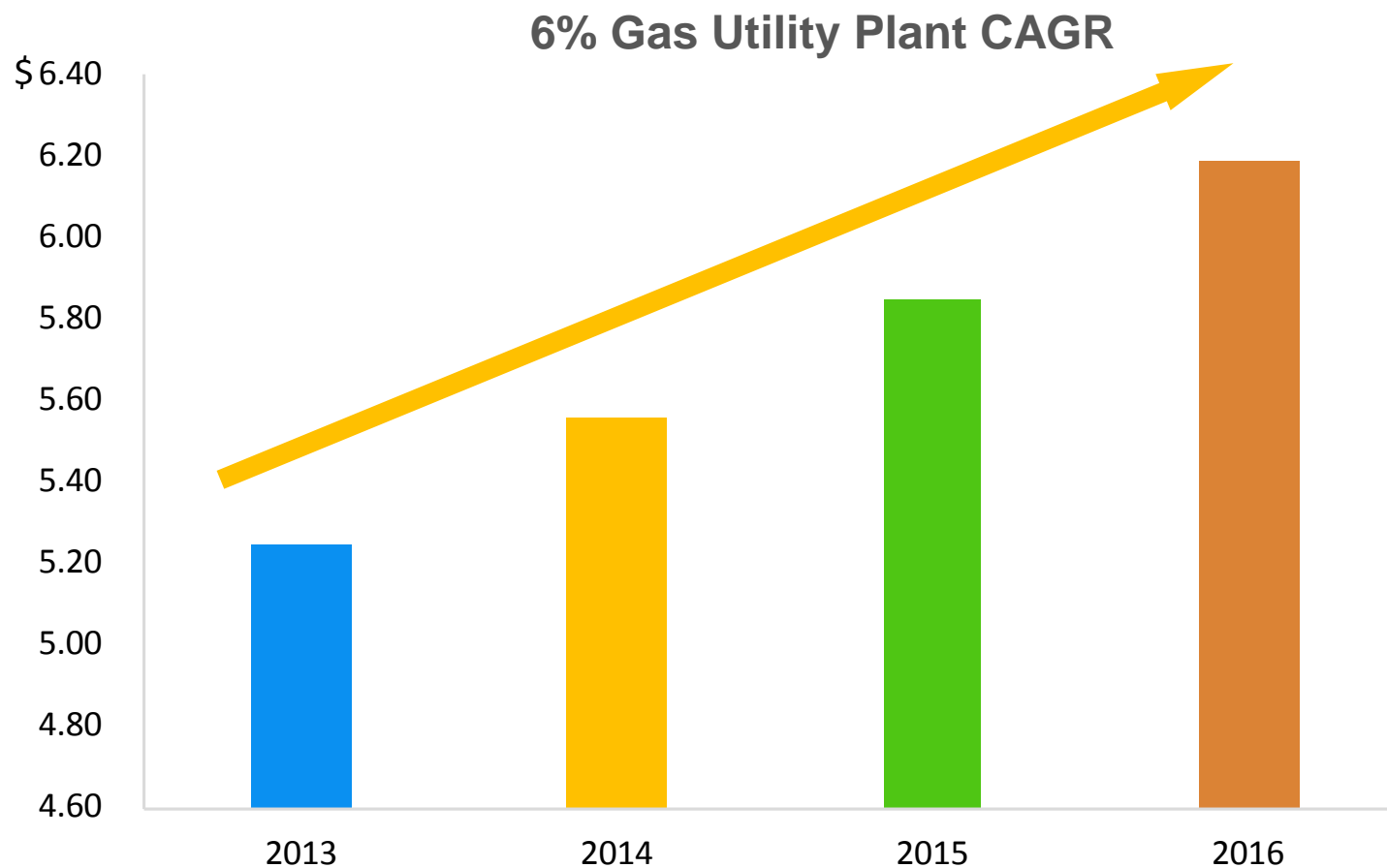


Source: S&P Global Market Intelligence

# Gas Utility Plant - Growth

## Natural Gas Operations

(In billions)

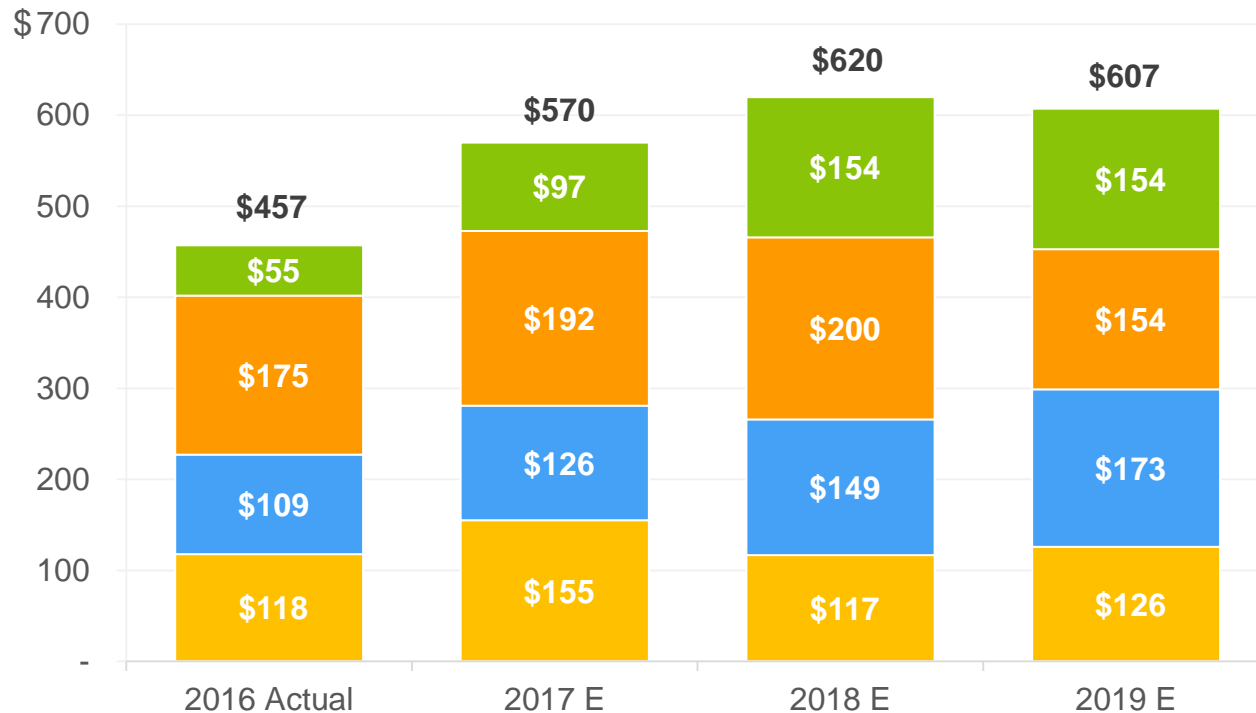


CAGR = compound annual growth rate

# Capital Expenditures

## Natural Gas Operations

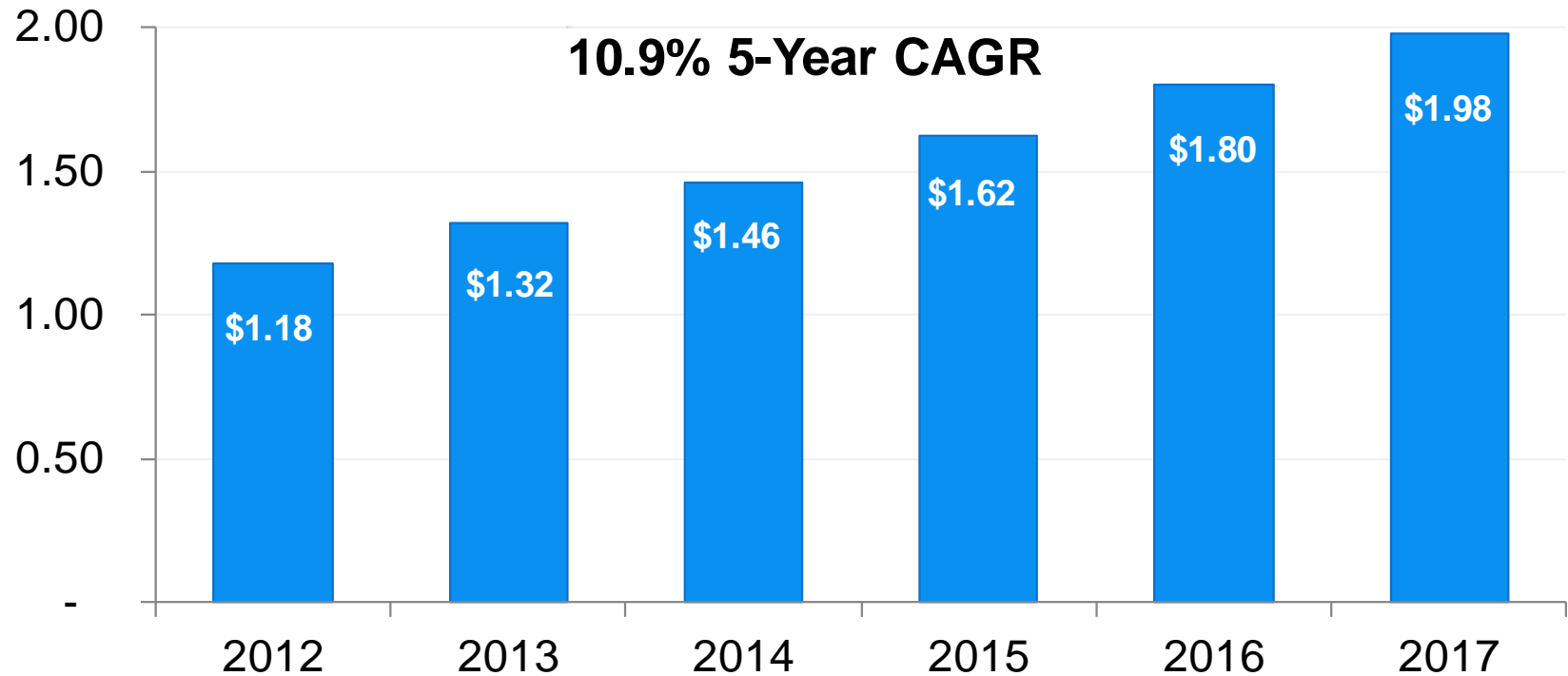
(In millions)



- 2017-2019 Estimate \$1.6 - \$1.8 billion
- Chart reflects upper end of estimated range of capital expenditures for 2017-2019

- General Plant/Staff/Overheads
- New Business/Reinforcements
- Code/Regulatory Requirements
- Infrastructure Replacement Under Trackers

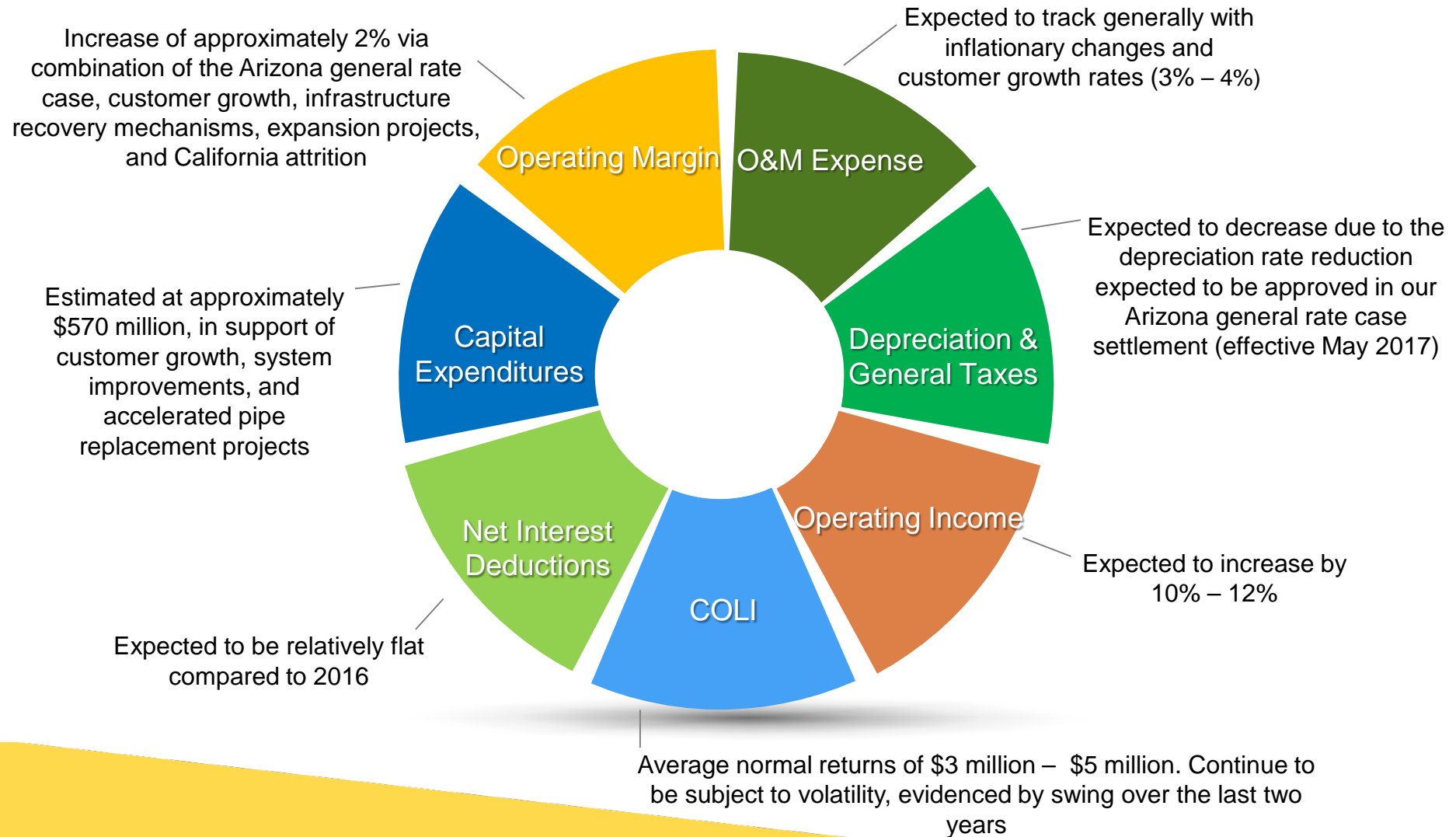
# Dividend Growth



CAGR = compound annual growth rate

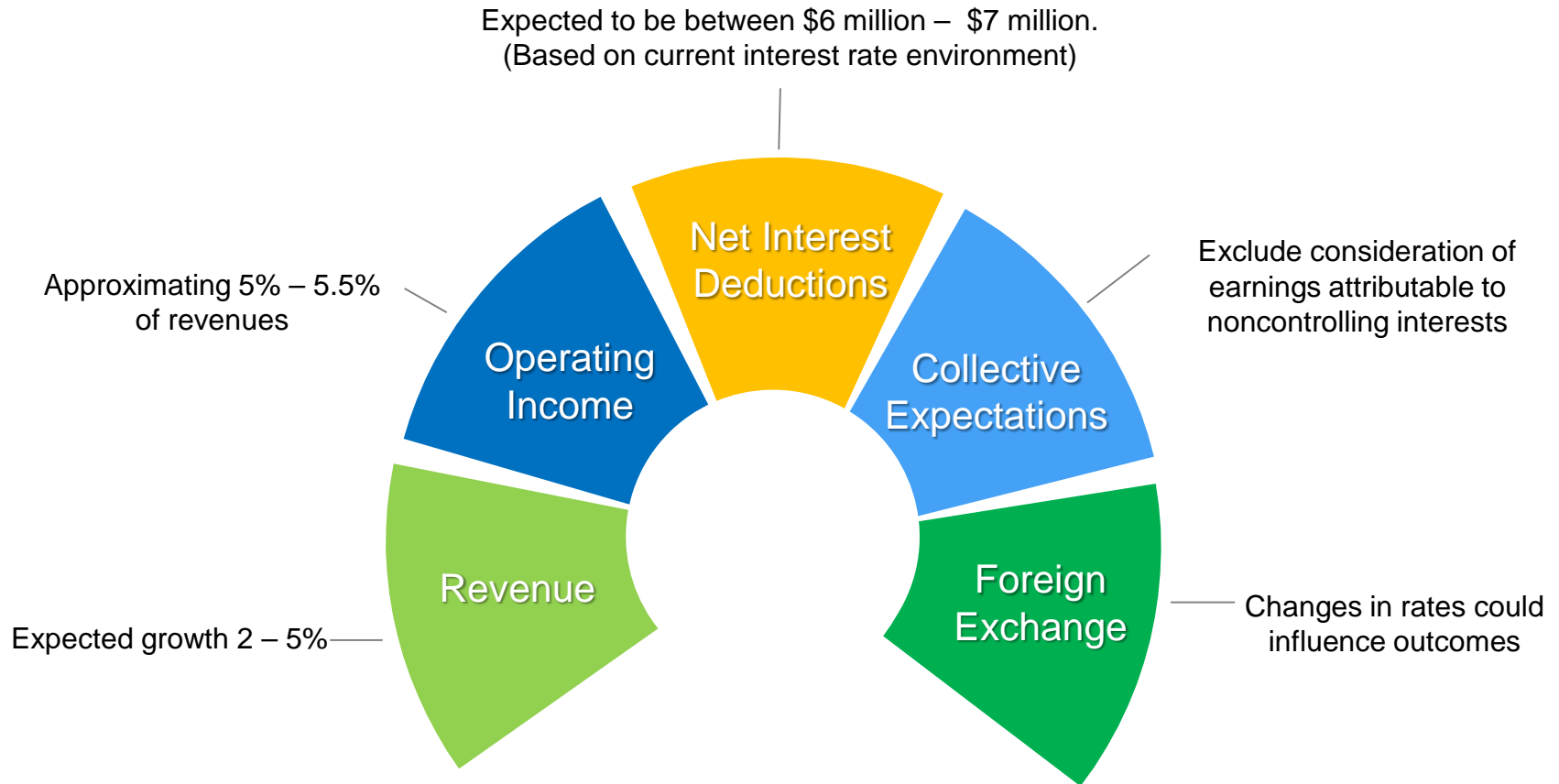
# 2017 Expectations

## Natural Gas Operations



# 2017 Expectations

## Construction Services



# Strategic Investment Opportunities



## Natural Gas Operations

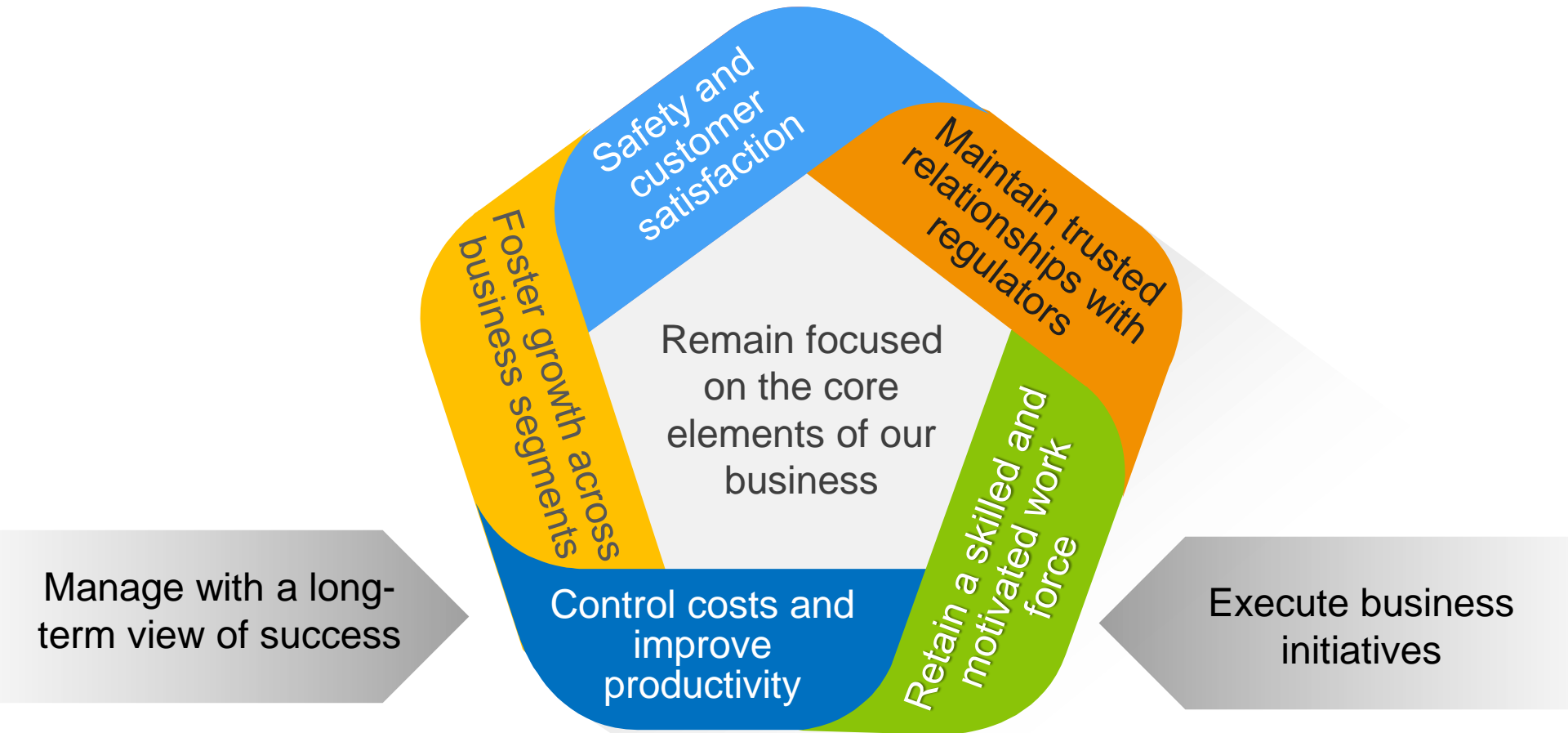
- Underground gas storage assets
- Gas reserves
- Unserved or underserved areas of Nevada (SB151)
- Southern Nevada transmission replacement
- Customer Management System replacement



## Construction Services

- Add-on acquisitions
- Water distribution replacement
- Other utility infrastructure replacement/repair work

# Strategic Focus





# APPENDIX

# 2016 Increase in Operating Margin

Natural Gas Operations

(In millions)



<b>Rate relief (CA, Paiute)</b>	<b>\$</b>	<b>10</b>
<b>Conservation and energy efficiency (NV)</b>		<b>11</b>
<b>Customer growth</b>		<b>8</b>
<b>Other</b>		<b>4</b>
<b>Increase</b>	<b>\$</b>	<b>33</b>

# Operating Expense

## Natural Gas Operations



Operating expenses increased \$31.5 million or 5%

- O&M expense increased 2.2%
  - General cost increases
  - Higher employee medical costs
  - Lower pension expense
- Depreciation and amortization expense increased 9%
  - Driven by 6% increase in average plant and an increase in regulatory amortizations
- General taxes increased 6%
  - Primarily due to higher property taxes associated with plant additions

# Other Income and Deductions

## Natural Gas Operations

(In thousands)



	TWELVE MONTHS ENDED DECEMBER 31,		
	2014	2015	2016
Change in COLI policies	\$ 5,300	\$ (500)	\$ 7,400
Miscellaneous income and (expense)	1,865	2,792	876
Total other income (deductions)	<u>\$ 7,165</u>	<u>\$ 2,292</u>	<u>\$ 8,276</u>

# Net Financing Costs

## Natural Gas Operations



Increased \$3 million from \$64.1 million in 2015 to \$67 million in 2016

- Primarily due to the higher interest expense associated with deferred PGA balances and the issuance of \$300 million senior notes
- Increase partially offset by reductions associated with the redemption of debt (\$20 million 5.25% 2003 Series D IDRBs in September 2015, \$100 million 4.85% 2005 Series A IDRBs in July 2016, and \$24.9 million 4.75% 2006 Series A in September 2016)

# Customers by State

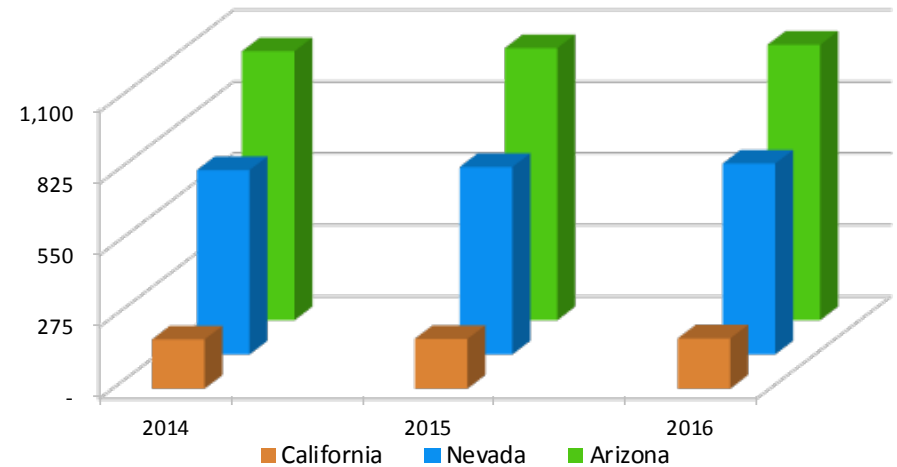
## Natural Gas Operations

(In thousands)



As of December 31,

	2014	2015	2016
Arizona	1,033	1,045	1,058
Nevada	708	720	733
California	189	191	193
Total	1,930	1,956	1,984



# Purchased Gas Adjustment (PGA) Balances

## Natural Gas Operations

(In millions)



**SOUTHWEST GAS**

	As of December 31,	
	2015	2016
Arizona	\$ (3.5)	\$ (20.3)
Northern Nevada	(2.3)	(3.3)
Southern Nevada	(39.8)	(66.8)
California	3.6	2.6
Total Receivable/(Payable)	<u>\$ (42.0)</u>	<u>\$ (87.9)</u>

# Liquidity Profile

## Natural Gas Operations

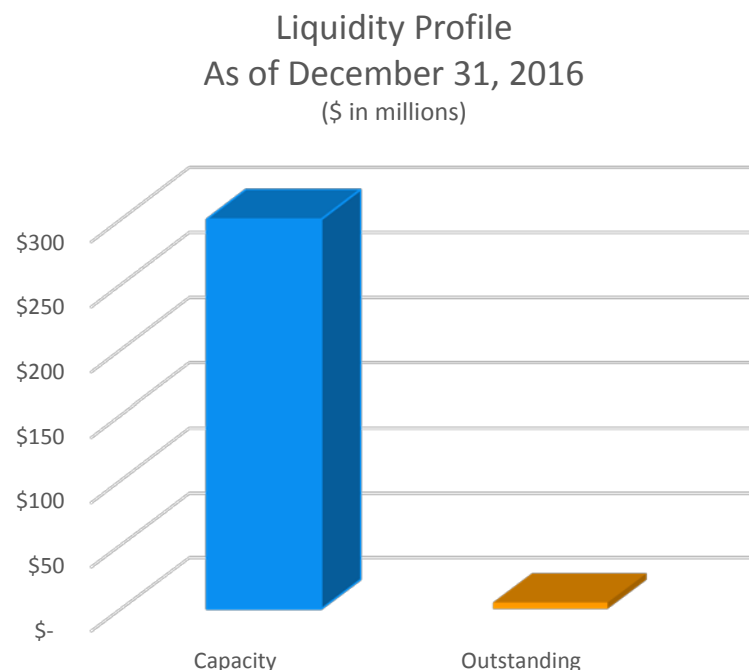


### Strong liquidity will support capital expenditure and working capital needs

- Stable operating cash flows
- \$300 million revolving credit facility
  - Expires in March 2021
  - \$150 million of the facility designated long-term debt and remaining \$150 million as working capital
- \$50 million uncommitted commercial paper program

### As of December 31, 2016

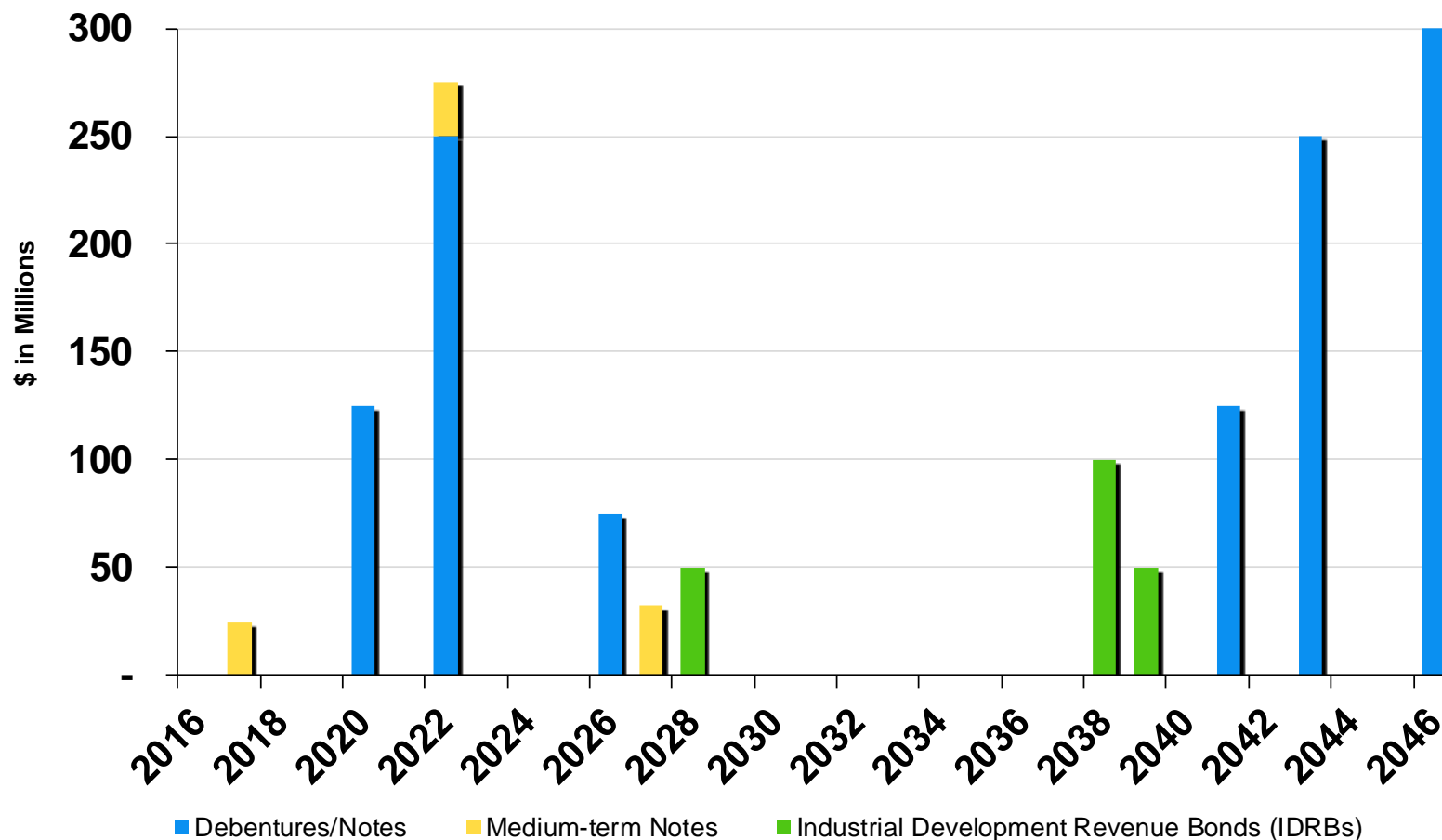
- \$5 million of LIBOR loans
- Available borrowing capacity of \$295 million



# Long-Term Debt Maturity Schedule<sup>[1]</sup> at December 31, 2016



**SOUTHWEST GAS**



[1] Does not include the long-term portion of the \$300 million Revolving Credit Facility, due March 2021

# Authorized Rate Base and Rates of Return

## Natural Gas Operations



**SOUTHWEST GAS**

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

(1) Estimated amounts based on rate case settlement.

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

# Operating Revenues

## Construction Services



Increased by \$130 million compared to 2015

Primarily due to certain large bid projects and additional pipe replacement work

- Favorable weather conditions extended the construction season
- Governmental-mandated pipeline safety-related programs resulted in multi-year distribution of pipe replacement projects

# Operating Expenses

## Construction Services



- **Construction expense increased by \$125.6 million**

- Additional pipe replacement work
- Higher labor costs
- General and administrative expense increased approximately \$1.6 million
- Gain on sales of equipment were \$7.1 million

- **Depreciation expense decreased by \$1 million**

- \$4 million reduction in depreciation associated with an extension of the estimated useful lives of certain depreciable equipment
- Decline in amortization of certain finite-lived intangible assets recognized from the October 2014 acquisition

- **Net Interest Deductions**

- Lower interest rates on outstanding borrowings
- Decrease in the average line of credit balance outstanding

# Capital Structure

(In millions, except ratios)



Capitalization at December 31,	2012	2013	2014	2015	2016
Equity <sup>1</sup>	\$ 1,308	\$ 1,412	\$ 1,506	\$ 1,608	\$ 1,684
Long-Term Debt <sup>2</sup>	1,319	1,393	1,651	1,571	1,600
Total Permanent Capital	<u>\$ 2,627</u>	<u>\$ 2,805</u>	<u>\$ 3,157</u>	<u>\$ 3,179</u>	<u>\$ 3,284</u>
Capitalization ratios					
Equity <sup>1</sup>	49.8%	50.4%	47.7%	50.6%	51.3%
Long-Term Debt <sup>2</sup>	<u>50.2%</u>	<u>49.6%</u>	<u>52.3%</u>	<u>49.4%</u>	<u>48.7%</u>
Total Permanent Capital	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

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

# Investment Grade Credit Ratings

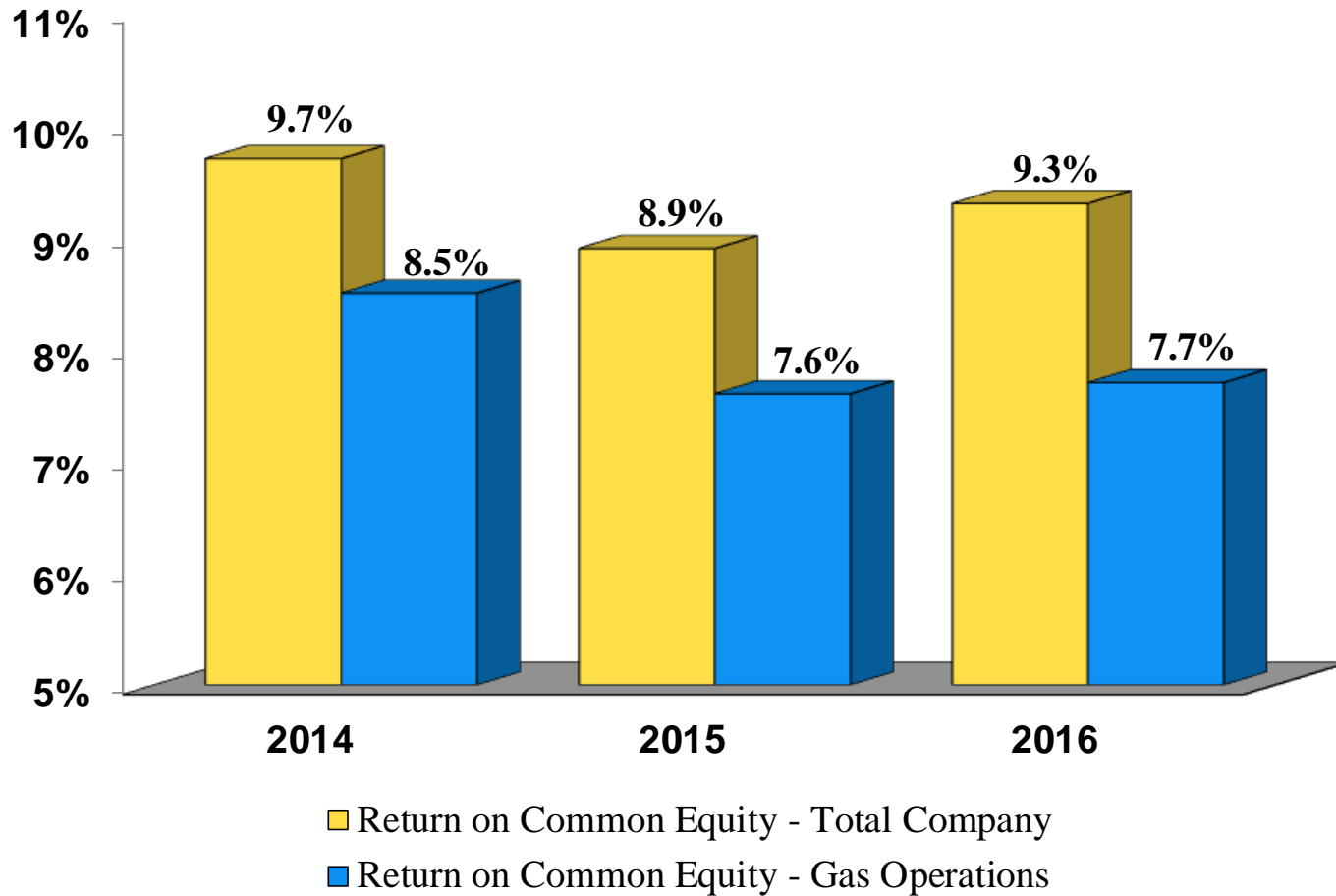
## **SOUTHWEST GAS HOLDINGS, INC.**

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Issuer Rating</b>	<b>Baa1</b>	<b>BBB+</b>	<b>BBB+</b>
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

## **SOUTHWEST GAS CORPORATION**

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
<b>Issuer Rating</b>	<b>A3</b>	<b>BBB+</b>	<b>A-</b>
<b>Senior Unsecured</b>	<b>A3</b>	<b>BBB+</b>	<b>A</b>
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>

# Return on Common Equity



# Stock Performance



**Southwest Gas**  
HOLDINGS

**Southwest Gas Holdings, Inc.**  
**Common Stock Closing Price**  
December 31, 2006 – December 31, 2016



# Comparative Total Returns

## Total Returns for Periods Ended December 31, 2016

	1-Year	3-Year	5-Year	10-Year
<b>Southwest Gas Holdings</b>	<b>42.50%</b>	<b>14.08%</b>	<b>15.55%</b>	<b>10.32%</b>
<b>S&amp;P 400 MidCap Gas Index</b>	<b>30.61%</b>	<b>14.31%</b>	<b>14.68%</b>	<b>10.64%</b>
<b>S&amp;P Utilities Index</b>	<b>17.60%</b>	<b>12.62%</b>	<b>10.79%</b>	<b>7.43%</b>
<b>S&amp;P 500 Index</b>	<b>11.93%</b>	<b>8.85%</b>	<b>14.62%</b>	<b>6.93%</b>

**Total Return = Price appreciation plus gross dividends reinvested**