

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

FORM 10-K

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

For the fiscal period ended December 31, 2019

OR

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

<i>Commission File Number</i>	<i>Exact name of registrant as specified in its charter and principal office address and telephone number</i>	<i>State of Incorporation</i>	<i>I.R.S. Employer Identification No.</i>
001-37976	Southwest Gas Holdings, Inc. 5241 Spring Mountain Road Post Office Box 98510 Las Vegas, Nevada 89193-8510 (702) 876-7237	Delaware	81-3881866
1-7850	Southwest Gas Corporation 5241 Spring Mountain Road Post Office Box 98510 Las Vegas, Nevada 89193-8510 (702) 876-7237	California	88-0085720

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Southwest Gas Holdings, Inc. Common Stock, \$1 par value	SWX	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Southwest Gas Holdings, Inc.

Yes No

Southwest Gas Corporation

Yes No

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether each 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) Yes No

Indicate by check mark whether each registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Southwest Gas Holdings, Inc.:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Southwest Gas Corporation:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Aggregate market value of the voting and non-voting common stock held by nonaffiliates of the registrant

Southwest Gas Holdings, Inc.
\$4,868,267,468 as of June 30, 2019

The number of shares outstanding of Southwest Gas Holdings, Inc. common stock:

Common Stock, \$1 Par Value, 55,056,613 shares as of February 18, 2020

All of the outstanding shares of common stock (\$1 par value) of Southwest Gas Corporation were held by Southwest Gas Holdings, Inc. as of February 18, 2020.

SOUTHWEST GAS CORPORATION MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION (I)(1)(a) and (b) OF FORM 10-K AND IS THEREFORE FILING THIS REPORT WITH THE REDUCED DISCLOSURE FORMAT AS PERMITTED BY GENERAL INSTRUCTION I(2).

DOCUMENTS INCORPORATED BY REFERENCE

Description	Part Into Which Incorporated
Annual Report to Stockholders for the Year Ended December 31, 2019	Parts I, II, and IV
2020 Proxy Statement	Part III

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FILING FORMAT

This annual report on Form 10-K is a combined report being filed by two separate registrants: Southwest Gas Holdings, Inc. and Southwest Gas Corporation. Except where the content clearly indicates otherwise, any reference in the report to “we,” “us” or “our” is to the holding company or the consolidated entity of Southwest Gas Holdings, Inc. and all of its subsidiaries, including Southwest Gas Corporation, which is a distinct registrant that is a wholly owned subsidiary of Southwest Gas Holdings, Inc. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

Part II—Item 8. Financial statements and supplementary data in this Annual Report on Form 10-K includes separate financial statements (i.e., balance sheets, statements of income, statements of comprehensive income, statements of cash flows, and statements of equity) for Southwest Gas Holdings, Inc. and Southwest Gas Corporation, in that order. The notes to consolidated financial statements are presented on a combined basis for both entities. All Items other than Part II – Item 8 are combined for the reporting companies.

PART I

Item 1. BUSINESS

Southwest Gas Holdings, Inc., a Delaware corporation, is a holding company headquartered in Las Vegas, Nevada, which either on its own or together with its subsidiaries is referred to herein as the “Company.” Through its wholly owned subsidiaries, Southwest Gas Corporation (“Southwest” or the “natural gas operations” segment) and Centuri Group, Inc. (“Centuri” or the “utility infrastructure services” segment), the Company operates two business segments: natural gas operations and utility infrastructure services. At the annual meeting of stockholders of Southwest Gas Holdings, Inc., held on May 2, 2019, stockholders voted to approve changing the state of incorporation of Southwest Gas Holdings, Inc. from California to Delaware. The reincorporation was effective as of September 20, 2019. Southwest continues to be incorporated in the state of California.

Southwest was incorporated in March 1931 under the laws of the state of California and provides regulated natural gas delivery services to customers in portions of Arizona, Nevada, and California. 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 purchases and the timing of related recoveries can materially impact liquidity. Results for the natural gas operations segment are higher during winter periods due to the seasonality incorporated in its regulatory rate structures.

Centuri is a comprehensive utility infrastructure services enterprise dedicated to delivering a diverse array of solutions to North America’s gas and electric providers. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions. Centuri operations are generally conducted under the business names of NPL Construction Co. (“NPL”), NPL Canada Ltd. (“NPL Canada”), New England Utility Constructors, Inc. (“Neuco”), and Linetec Services, LLC (“Linetec”). In November 2017, Centuri expanded its operations in the northeast region of the U.S. through the acquisition of Neuco, and again in November 2018, in the southeast region of the U.S. through the acquisition of an 80% interest in Linetec. Centuri results are also seasonal with lower revenues during the first quarter of the year due to unfavorable winter weather conditions. Operating revenues typically improve as more favorable weather conditions occur during the summer and fall months.

Financial information concerning the Company’s business segments is included in Note 14 - Segment Information of the notes to consolidated financial statements, which is included in the 2019 Annual Report to Stockholders and is incorporated herein by reference.

Southwest Gas Holdings maintains a website (www.swgasholdings.com) for the benefit of stockholders, investors, customers, and other interested parties. Similarly, Southwest maintains a website (www.swgas.com) mainly focused on utility operations. The annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available, free of charge, through the www.swgasholdings.com website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (the “SEC”). All Company SEC filings are also available on the www.swgasholdings.com website. Nothing included on our website shall be deemed to be a part of the annual report on Form 10-K. The Corporate Governance Guidelines, Code of Business Conduct and Ethics, and charters of the Nominating and Corporate Governance, Audit, and Compensation Committees of the Board of Directors of the Company are also available on the www.swgasholdings.com website. Print versions of these documents are available to stockholders upon request directed to the Corporate Secretary, Southwest Gas Holdings, Inc., 5241 Spring Mountain Road, Las Vegas, NV 89150.

NATURAL GAS OPERATIONS

General Description

Southwest is subject to regulation by the Arizona Corporation Commission (the “ACC”), the Public Utilities Commission of Nevada (the “PUCN”), and the California Public Utilities Commission (the “CPUC”). These commissions regulate public utility rates, practices, facilities, and service territories in their respective states. The CPUC also regulates the issuance of all debt securities by Southwest, with the exception of short-term borrowings. Certain accounting practices, transmission facilities, and rates are subject to regulation by the Federal Energy Regulatory Commission (the “FERC”). Centuri, by contrast, is not regulated by the state utilities commissions or by the FERC in any of its operating areas.

As of December 31, 2019, Southwest purchased and distributed or transported natural gas to 2,081,000 residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. Southwest added 34,000 net new customers during 2019. Southwest expects similar customer growth in 2020.

The table below lists the percentage of operating margin (operating revenues less net cost of gas) by major customer class for the years indicated:

For the Year Ended December 31,	Distribution		
	Residential and Small Commercial	Other Sales Customers	Transportation
2019	84%	3%	13%
2018	85%	3%	12%
2017	85%	3%	12%

Southwest is not dependent on any one or a few customers such that the loss of any one or several would have a significant adverse impact on earnings or cash flows.

Transportation of customer-secured gas to end-users accounted for 44% of total system throughput in 2019, but only 13% of operating margin as shown in the table above. Customers who utilized this service transported 101 million dekatherms in 2019, 105 million dekatherms in 2018, and 97 million dekatherms in 2017.

The demand for natural gas is seasonal, with greater demand in the colder winter months and decreased demand in the warmer summer months. It is the opinion of management that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in operations due to this seasonality. The decoupled rate mechanisms in place in the three-state service territory, as described below, are structured with seasonal variations. Also, earnings for interim periods can be significantly affected by the timing of general rate relief.

Rates and Regulation

Rates that Southwest is authorized to charge its distribution system customers are determined by the ACC, PUCN, and CPUC in general rate cases and are derived using rate base, cost of service, and cost of capital experienced in an historical test year, as adjusted in Arizona and Nevada, and projected for a future test year in California. The FERC regulates the northern Nevada transmission and liquefied natural gas (“LNG”) storage facilities of Paiute Pipeline Company (“Paiute”), a wholly owned subsidiary, and the rates it charges for transportation of gas directly to certain end-users and to various local distribution companies (“LDCs”). The LDCs transporting on the Paiute system are: NV Energy (serving Reno and Sparks, Nevada) and Southwest (serving Truckee, South and North Lake Tahoe in California, and various locations throughout northern Nevada).

Rates charged to customers vary according to customer class and rate jurisdiction and are set at levels that are intended to allow for the recovery of all commission-approved costs, including a return on rate base sufficient to pay interest on debt as well as a reasonable return on common equity. Rate base consists generally of the original cost of utility plant in service, net of amounts associated with costs borne by third parties, plus certain other assets such as working capital and inventories, less accumulated depreciation on utility plant in service, net deferred income tax liabilities, and certain other deductions.

Rate structures in all service territories allow Southwest to separate or “decouple” the recovery of operating margin from natural gas consumption, though decoupled structures (alternative revenue programs) vary by state. In California, authorized operating margin levels vary by month. In Nevada and Arizona, the decoupled rate structures apply to most customer classes on the basis of margin per customer, which varies by month. Collectively, these mechanisms provide stability in annual operating margin.

Rate schedules in all service areas contain deferred energy or purchased gas adjustment provisions, which allow Southwest to file for rate adjustments as the cost of purchased gas changes. Deferred energy and purchased gas adjustment (collectively “PGA”) rate changes affect cash flows, but have no direct impact on profit margin. Filings to change rates in accordance with PGA clauses are subject to audit by the appropriate state regulatory commission staff.

Information with respect to recent general rate cases, PGA filings, and other regulatory proceedings is included in the Rates and Regulatory Proceedings section of Management’s Discussion and Analysis (“MD&A”), which is incorporated by reference herein and included within the 2019 Annual Report to Stockholders.

The table below lists recent docketed general rate filings and the status of such filing within each ratemaking area:

Ratemaking Area	Type of Filing	Month Filed	Month Final Rates Effective
Arizona	General rate case	May 2019	Pending
California:			
Northern, Southern, and South Lake Tahoe	Annual attrition	November 2019	January 2020
Northern, Southern, and South Lake Tahoe	General rate case	August 2019	Pending
Nevada:			
Northern and Southern	General rate case	May 2018*	January 2019
FERC:			
Paiute	General rate case	May 2019	Pending

* Southwest plans to file a new rate case in late February 2020.

Demand for Natural Gas

Deliveries of natural gas by Southwest are made under a priority system established by state regulatory commissions. The priority system is intended to ensure that the gas requirements of higher-priority customers, primarily residential customers and other customers who use 500 therms or less of gas per day, are fully satisfied on a daily basis before lower-priority customers, primarily electric utility and large industrial customers able to use alternative fuels, are provided any quantity of gas or capacity.

Demand for natural gas is greatly affected by temperature. On cold days, use of gas by residential and commercial customers can be as much as seven times greater than on warm days because of increased use of gas for space heating. To fully satisfy this increased high-priority demand, gas is withdrawn from storage in certain service areas, or peaking supplies are purchased from suppliers. If necessary, service to interruptible lower-priority customers may be curtailed to provide the needed delivery system capacity. Southwest maintains no significant backlog on its orders for gas service.

Natural Gas Supply

Southwest is responsible for acquiring and arranging delivery of natural gas to its system in sufficient quantities to meet its sales customers’ needs. Southwest’s primary natural gas procurement objective is to ensure that adequate supplies of natural gas are available at a reasonable cost. Southwest acquires natural gas from a wide variety of sources with a mix of purchase provisions, which includes spot market and firm supplies. The purchases may have terms from one day to several years and utilize both fixed and indexed pricing. During 2019, Southwest acquired natural gas from 36 suppliers. Southwest regularly monitors the number of suppliers, their performance, and their relative contribution to the overall customer supply portfolio. New suppliers are contracted when possible, and solicitations for supplies are extended to the largest practicable list of suppliers, taking into account each supplier’s creditworthiness. Competitive pricing, flexibility in meeting Southwest’s requirements, and demonstrated reliability of service are instrumental to any one supplier’s inclusion in Southwest’s portfolio. The goal of this practice is to mitigate the risk of nonperformance by any one supplier and ensure competitive prices in the portfolio.

Balancing reliability with supply cost results in a continually changing mix of purchase provisions within the supply portfolios. To address the unique requirements of its various market areas, Southwest assembles and administers a separate natural gas supply portfolio for each of its jurisdictional areas. Southwest facilitates most natural gas purchases through competitive bid processes.

To mitigate customer exposure to short-term market price volatility, during 2019 Southwest sought to fix the price on a portion (up to 25% in the Arizona and California jurisdictions) of its forecasted annual normal-weather volume requirement, primarily using firm, fixed-price purchasing arrangements that are secured periodically throughout the year. Southwest’s price volatility mitigation program includes the use of financial derivatives, in the form of fixed-for-floating-index-price swaps combined with indexed-price physical purchases, to secure a portion of the fixed-price portfolio for the Arizona rate jurisdiction. The combination of fixed-price contracts and financial derivatives is designed to increase flexibility for Southwest and increase supplier diversification. The cost of such financial derivatives combined with the associated indexed-price physical purchases is recovered from customers through the PGA mechanism. For periods beyond October 2020, Southwest does not plan to make any fixed-price term or swap purchases for the Arizona jurisdiction, however, will continue to make fixed-price purchases for the California jurisdiction. Southwest does not currently enter into swaps or fixed-price purchases for its Nevada territories.

For the 2019/2020 heating season, fixed-price physical commodity purchases ranged from approximately \$1.15 to approximately \$2.85 per dekatherm. Southwest makes natural gas purchases, not covered by fixed-price contracts, under variable-price contracts with firm quantities or on the spot market. Prices for these contracts are determined at the beginning of each month to reflect that

month's published first-of-month index price or based on a published daily price index. These monthly or daily index prices are not published or known until the purchase period begins.

The baseload firm natural gas supply arrangements are structured such that Southwest must nominate a stated volume of natural gas and the supplier must confirm that nomination. Contracts provide for fixed or market-based penalties to be paid by the non-performing party.

Storage availability may influence the average annual price of natural gas, as storage may allow a company to purchase natural gas quantities during the off-peak season and store it for use in high demand periods when prices may be greater or supplies/capacity tighter. Dependent upon the rate jurisdiction, Southwest has some access to storage services, but overall there are a small quantity of storage services available for Southwest's use. For available storage services, Southwest purchases natural gas for injection during the off-peak period for use in the high demand months; however, since there is a small quantity of storage services available, storage has a limited impact on Southwest's annual average price of natural gas. Additionally, Southwest utilizes most available storage services for operational purposes to meet customer demand and not for economic purposes. This also limits the influence the available storage services have on Southwest's average annual price of natural gas.

Southwest currently has no storage service availability in its southern Nevada rate jurisdiction. Southwest has limited storage service availability for the southern and northern California, northern Nevada, and Arizona rate jurisdictions. The following summarizes Southwest's access to storage services for those rate jurisdictions.

Southwest has a contract with Southern California Gas Company for use only within Southwest's southern California rate jurisdiction.

Southwest contracts for storage services from Paiute's above-ground LNG facility. This storage service provides peaking capability only for the northern Nevada and northern California rate jurisdictions.

Southwest also has interruptible storage contracts with Northwest Pipeline Corporation ("NWPL") for the northern Nevada and northern California rate jurisdictions. NWPL has the discretion to limit Southwest's ability to inject or withdraw from this interruptible storage, which consequently limits Southwest's use of this interruptible storage capacity. As such, this storage provides limited operational flexibility to adjust daily flowing supplies to meet demand.

For the Arizona rate jurisdiction, Southwest previously contracted with Enstor Grama Ridge Storage and Transportation, LLC ("Enstor") which provided for a maximum inventory quantity of 600,000 dekatherms of underground storage. This contract terminated in March 2019. Beginning in December 2019, a 233,000 dekatherm above-ground LNG facility in southern Arizona was placed into service. This facility is intended to enhance service reliability and flexibility in natural gas deliveries in the area by providing a local storage option that is operated by Southwest and connected directly to its distribution system.

Natural gas supplies for Southwest's southern system (Arizona, southern Nevada, and southern California properties) are primarily obtained from producing regions in Colorado and New Mexico (San Juan basin), Texas (Permian basin), and Rocky Mountain areas. For its northern system (northern Nevada and northern California properties), Southwest primarily obtains natural gas from Rocky Mountain producing areas and from Canada.

The landscape for national natural gas supply is continuously changing. Advanced drilling techniques continue to provide access to abundant and sustainable natural gas supplies. The natural gas market has responded to the abundant supply of natural gas with reductions to both price volatility and the total price of the commodity. Forecasts show that an ample and diverse natural gas supply is available to Southwest's customers at a highly competitive price when compared with competing forms of energy.

Southwest arranges for transportation of natural gas to its Arizona, Nevada, and California service territories through the pipeline systems of El Paso Natural Gas Company ("El Paso"), Kern River Gas Transmission Company ("Kern River"), Transwestern Pipeline Company ("Transwestern"), NWPL, Tuscarora Gas Pipeline Company ("Tuscarora"), Southern California Gas Company, Paiute, and Ruby Pipeline LLC ("Ruby"), costs for which are recovered from Southwest's customers through the PGA mechanism. Southwest regularly monitors short- and long-term supply and pipeline capacity availability to ensure the reliability of service to its customers. Southwest currently receives firm transportation service, both on a short- and long-term basis, for all its service territories on the pipeline systems noted above. Southwest also contracts for firm natural gas supplies that are delivered to Southwest's city gates to supplement its firm capacity on the interstate pipelines and to meet projected peak-day demands. Southwest could also utilize its interruptible contracts on the interstate pipelines for the transportation of additional natural gas supplies.

Southwest believes that the current levels of contracted firm interstate capacity and delivered purchases are sufficient to serve each of its service territories' forecasted peak-day requirements. As the need arises to acquire additional capacity on one of the interstate pipeline transmission systems and to secure additional supply, primarily due to customer growth, Southwest will continue to consider available options to obtain that capacity (either through the use of firm contracts with a pipeline company or by purchasing capacity on the open market), and will also consider options for the purchase of additional firm delivered natural gas supplies.

Competition

Electric utilities are the principal competitors of Southwest for the residential and small commercial markets throughout its service areas. Competition for space heating, general household, and small commercial energy needs generally occurs at the initial installation phase when the customer/builder typically makes the decision as to which type of equipment to install and operate. The customer will generally continue to use the chosen energy source for the life of the equipment. Southwest interfaces directly with the various home builders and commercial property developers in its service territories to ensure that natural gas appliances are considered in new developments and commercial centers. As a result of its efforts, Southwest has continued to experience growth in the new construction market among residential and small commercial customer classes.

Certain large commercial, industrial, and electric generation customers have the capability to switch to alternative energy sources. To date, Southwest has been successful in retaining most of these customers by setting rates (subject to conditions of the respective state tariffs) at levels competitive with commercially available alternative energy sources such as electricity and fuel oils. However, high natural gas prices or policies surrounding electrification could impact Southwest's ability to retain some of these customers. Alternative energy has gained momentum in governmental policy overall in recent years. Southwest has taken steps to align with these efforts by supporting energy efficiency in our jurisdictions, being part of greenhouse gas protocols and initiatives in California, and creating new biogas and renewable natural gas ("RNG") tariff schedules in Arizona, California, and Nevada. While certain forms of renewable energy initiatives compete with natural gas, the abundance and low cost of natural gas provide competitive advantages across our portfolio of customers. Overall, management does not anticipate any material adverse impact on operating margin from fuel switching or alternative energy initiatives over the near term.

Southwest competes with interstate transmission pipeline companies, such as El Paso, Kern River, Transwestern, Tuscarora, and Ruby to provide service to certain large end-users. End-use customers located in proximity to these interstate pipelines pose a potential bypass threat. Southwest closely monitors each customer situation and provides competitive service in order to retain the customer. Southwest has remained competitive through the use of negotiated transportation contract rates (subject to conditions of the respective state tariffs), special long-term contracts with electric generation and cogeneration customers, and other tariff programs. These competitive response initiatives have mitigated the loss of operating margin earned from large customers.

Environmental Matters

Federal, state, and local laws and regulations governing the discharge of materials into the environment have a direct impact upon Southwest. Environmental efforts, with respect to matters such as storm water management, emissions of air pollutants, hazardous material management, protection of endangered species and archaeological resources, directly impact the complexity and time required to obtain pipeline rights-of-way and construction permits. There have also been a number of federal and state legislative and regulatory initiatives proposed in recent years in an attempt to control or limit the effects of global warming and overall climate change, including greenhouse gas emissions ("GHGs"), such as carbon dioxide. The adoption of this type of legislation by Congress or similar legislation by state governments mandating a substantial reduction in GHGs, or decarbonization generally, in the future could have significant impacts on the energy industry. Such new legislation or regulations could result in increased compliance costs or additional operating restrictions on our business, affect the demand for natural gas, or impact the prices we charge our customers. At this time, we cannot predict the potential impact of such laws or regulations, if adopted, on our future business, financial condition, or results. However, increased environmental legislation and regulation can also be beneficial to the natural gas industry. Natural gas is one of the most environmentally-friendly fossil fuels currently available and its use can help energy users comply with stricter environmental air quality standards. While transportation is typically cited as the leading source of carbon dioxide emissions in the United States, Southwest continues to work with policy makers, and regulators to provide customers with clean, efficient, affordable natural gas service and to support and adopt renewables initiatives and expanded use of compressed natural gas. In recent years, regulatory activity in both Arizona and Nevada has led to provisions allowing the development and potential investment in RNG projects, adding to the existing dairy biomethane pilot provisions in California. In addition, proposals have been made in all jurisdictions to allow the purchase of RNG as part of Southwest's gas supply portfolio.

The United States Environmental Protection Agency (the "EPA") and State of California Environmental Protection Agency (the "Cal/EPA") regulations require the reporting of GHGs from large sources and suppliers in order to facilitate the development of policies and programs to reduce GHGs. Southwest reports required information to the EPA and Cal/EPA under respective rules including the volumes of natural gas that it receives for distribution to LDC customers, and the GHG emissions that result from the operation of its LDC pipelines. While some aspects of the mandatory reporting rules do not apply to Southwest, other required information is being reported to the Department of Energy, the Department of Transportation, or is available in existing databases. Management also monitors the development of climate legislation (including the State of California Global Warming Solutions Act), which could result in additional requirements or have financial implications.

California legislation and regulations promulgated by the California Air Resources Board (the "CARB"), require Southwest to comply with all of the requirements associated with the California GHG Emissions Reporting Program and the California Cap and Trade Program, objectives of which endeavor to reduce California statewide GHGs to 1990 levels by the end of 2020. Southwest must report annual GHGs each year. The CARB annually allocates to Southwest a certain number of allowances based on

Southwest's reported 2011 GHGs. Of those allocated allowances, Southwest must consign a certain percentage to the CARB for auction. Southwest can use any allocated allowances that remain after consignment, along with allowances it can purchase through CARB auctions or reserve sales, or through over the counter ("OTC") purchases with other market participants, to meet its compliance obligations.

There were two three-year compliance periods established; one which ended in 2017 and the other, ending in 2020. Southwest successfully met the first three-year compliance obligation by surrendering a sufficient number of allowances prior to November 1, 2018. The CPUC issued a decision that provides for the regulatory treatment of the program costs. The decision also implemented the California Climate Credit in October 2018, representing a return of auction proceeds, which will be updated annually each April. There is no expected impact on earnings.

Employees

At December 31, 2019, Southwest had 2,295 regular full-time equivalent employees. Southwest believes it has a good relationship with its employees and that compensation, benefits, and working conditions afforded its employees are comparable to those generally found in the utility industry. No employees are represented by a union.

UTILITY INFRASTRUCTURE SERVICES

Centuri is a comprehensive utility infrastructure services enterprise dedicated to delivering a diverse array of solutions to North America's gas and electric providers. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions. The primary focus of Centuri operations is replacement of natural gas distribution pipe and electric service lines as well as new infrastructure installations. Utility infrastructure services work varies from relatively small projects to the installation of infrastructure for entire residential communities or business parks. Utility infrastructure services activity is seasonal in most of Centuri's operating areas. Peak periods are the summer and fall months in colder climate areas, such as the northeastern and midwestern U.S. and Canada. In warmer climate areas, such as the southwestern and southeastern U.S., utility infrastructure services activity continues year round.

During recent years, various factors resulted in an increase in large multi-year utility system replacement programs. The U.S. Department of Transportation's Pipeline and Hazardous Materials Safety Administration ("PHMSA") instituted Distribution Integrity Management Programs ("DIMP") effective February 2010 which required operators of gas distribution pipelines to develop and implement integrity management programs to enhance safety by identifying and reducing pipeline integrity risks. The U.S. Energy Policy Act of 2005 established mandatory electric grid reliability standards and incentivized investments in transmission and distribution systems. FERC Order No. 1000, issued in July 2011, established transmission planning requirements to encourage development of electric transmission infrastructure projects.

Centuri's contract terms with utility customers generally specify unit-price, fixed-price, or time and materials arrangements. Unit-price contracts establish prices for all of the various services to be performed during the contract period. These contracts often have annual pricing reviews. During 2019, approximately 79% of revenue was earned under unit-price contracts. Backlog represents the dollar amount of revenue Centuri expects to recognize in the future from contracts awarded and in progress as of the end of the reporting period. Reported backlog differs from the concept of remaining performance obligations as defined by accounting principles generally accepted in the U.S. ("U.S. GAAP") and is not a measure of contract profitability. As of December 31, 2019, backlog of approximately \$122.8 million existed with respect to outstanding fixed-priced contracts.

Materials used by Centuri in its utility infrastructure service activities are typically specified, purchased, and supplied by Centuri's customers. Contracts with customers also contain provisions which make customers generally liable for remediating environmental hazards encountered during the construction process. Such hazards might include digging in an area that was contaminated prior to construction, finding endangered animals, digging in historically significant sites, etc. Otherwise, Centuri's operations have limited environmental impact (dust control, normal waste disposal, handling harmful materials, etc.).

Competition within the industry has traditionally been limited to several regional and numerous local competitors in what has been a largely fragmented industry. Some national competitors also exist within the industry. Centuri operates in 54 primary locations across 40 states and provinces in the U.S. and Canada. During 2019, Centuri served over 100 customers, with Southwest accounting for approximately 9% of total revenue. Additionally, two customers combined accounted for approximately 19% of total revenue, while three other customers individually accounted for 5% or more of total revenue.

Employee headcount fluctuates between seasonal periods, which are normally heaviest in the summer and fall months. At December 31, 2019, Centuri had 6,649 regular full-time equivalent employees. Employment peaked in September 2019 when there were 7,687 employees. Most employees are represented by unions and are covered by collective bargaining agreements, which is typical of the utility infrastructure services industry.

Centuri is not directly affected by regulations promulgated by the ACC, PUCN, CPUC, or FERC. Centuri is an unregulated subsidiary of the Company. However, because Centuri performs work for Southwest, its associated costs are subject indirectly to

“prudency reviews” like any other capital work performed by third parties or directly by Southwest. However, such reviews would not bring Centuri under the regulatory jurisdiction of any of the commissions noted above.

Centuri, through its subsidiaries, holds a 50% interest in W.S. Nicholls Western Construction Ltd. (“Western”), a Canadian infrastructure services company that specializes in construction of underground aviation fueling systems and storage tanks. Western is a variable interest entity of which the Company is not the primary beneficiary; therefore, Western is not consolidated with Centuri and is accounted for under the equity method of accounting. To date, Western, has not been a significant component of Centuri’s financial results.

Item 1A. RISK FACTORS

Described below (and in Item 7A. Quantitative and Qualitative Disclosures about Market Risk of this report) are risk factors that we have identified that may have a negative impact on our future financial performance or affect whether we achieve the goals or expectations expressed or implied in any forward-looking statements contained herein. References below to “we,” “us,” and “our” should be read to refer to Southwest Gas Holdings, Inc. and its subsidiaries, including Southwest Gas Corporation and Centuri Group, Inc.

As a holding company, Southwest Gas Holdings, Inc. depends on operating subsidiaries to meet financial obligations.

Southwest Gas Holdings, Inc. has no significant assets other than the stock of operating subsidiaries and is not expected to have significant operations on its own. Southwest Gas Holdings’ ability to pay dividends to stockholders is dependent on the ability of its subsidiaries to generate sufficient net income and cash flows to service debt and pay upstream dividends. Because of the relative size of subsidiary operations, and their relative impacts to net income and cash flows, substantial dependency on the utility operations of Southwest Gas Corporation and the infrastructure services of Centuri Group, Inc. exists. The ability of Southwest Gas Holdings’ subsidiaries to pay upstream dividends and make other distributions would be subject to relevant debt covenant restrictions of subsidiaries and applicable state law.

Risk Factors that Apply to Southwest Gas Holdings, Inc., Natural Gas Operations, and Utility Infrastructure Services

A cybersecurity incident has the potential to disrupt normal business operations, expose sensitive information, and/or lead to physical damages, and may result in legal claims or damage to our reputation.

As both a utility provider and related infrastructure services provider, maintaining business operations is critical for our customers, business partners, suppliers, and our employees. A disruption in service could adversely impact our reputation, ability to provide services for our customers, as well as impact the media used to communicate and exchange information both internally and externally.

We process and store sensitive information, including personal identifiable information (“PII”), intellectual property, and business proprietary information as part of normal business operations. A cybersecurity breach of this information could expose us to monetary and other damages from customers, suppliers, business partners, government agencies, and others. The federal and state legislative and regulatory environment surrounding PII, information security, and data privacy is evolving and is likely to become increasingly demanding. For example, California recently enacted the California Consumer Privacy Act, which became effective on January 1, 2020 and requires covered businesses to, among other things, provide disclosures to California consumers regarding the collection, use, and disclosure of such consumers’ PII and afford such consumers new rights, including the right to opt out of certain sales of PII. Additional states are also considering new laws and regulations that further protect the confidentiality, privacy, and security of personal information. Should the Company experience a breach and/or become subject to additional regulation, it could face substantial compliance costs, reputational damage, and uncertain litigation risks.

Physical damage due to a cybersecurity incident or acts of cyber terrorism could impact utility and related services provided to customers and could lead to material liabilities. The Company has taken the initiative in fortifying the core infrastructure that supports the provision of utility and related services. While these measures provide layers of defense to mitigate these risks, there can be no assurance that the measures will be effective against any particular cyber attack. Even though we have insurance coverage in place for cyber-related risks, if such an attack or act of terrorism were to occur, our operations and financial results could be adversely affected to the extent not fully covered by such insurance coverage.

We may pursue acquisitions and other strategic transactions, the success of which may impact our results of operations, cash flows and financial condition.

The integration of acquisitions requires significant time and resources. Investment of resources would be required to support any acquisition, which could result in significant ongoing operating expenses and may divert resources and management attention from other areas of our business. If we fail to successfully integrate companies we acquire, we may not realize the benefits expected from the transaction and goodwill recorded as a result of the acquisition could be impaired. We assess existing goodwill for impairment annually or more frequently if events or circumstances occur that would more likely than not reduce the fair value of an operating segment below its carrying value. We also assess long-lived assets, including intangible assets associated with

acquisitions, for impairment whenever events or circumstances indicate that an asset's carrying amount may not be recoverable. To the extent the value of goodwill or long-lived assets becomes impaired, the impairment charges could have a material impact on our results of operations.

Liability exposure associated with litigation could have a material adverse effect on our business and results of operations

Southwest Gas Holdings, Inc., and its subsidiaries, are occasionally named as a party in lawsuits, claims, and other legal and administrative proceedings arising in the ordinary course of business, including actions related to personal injury, workers' compensation, employment-related claims, contracts, property damage, and other ancillary matters. Although we believe that adequate insurance coverage is maintained to protect against risk exposure, it is difficult to predict with absolute certainty the costs associated with litigation, indemnity obligations, or other claims asserted in any given year. Moreover, it is possible that not all liabilities and costs experienced will be covered by third-party insurance. As a consequence, liability exposure could materially and adversely affect our business and results of operations to the extent they are not fully covered by such insurance coverage.

The nature of our operations presents inherent risks of loss that could adversely affect our results of operations.

Our natural gas operations are subject to inherent hazards and risks such as gas leaks, fires, natural disasters, catastrophic accidents, explosions, pipeline ruptures, and other hazards and risks that may cause unforeseen interruptions, personal injury, or property damage. Our utility infrastructure services operations are reliant on skilled personnel who are trained and qualified to install utility infrastructure under established safety protocols and operator qualification programs, and in conformance with mandated engineering design specifications. Lapses in judgment or failure to follow protocol could lead to warranty and indemnification liabilities or catastrophic accidents, causing property damage or personal injury. Additionally, our facilities, machinery, and equipment, including our pipelines, are subject to third-party damage from construction activities, vandalism, or acts of terrorism. Such incidents could result in severe business disruptions, significant decreases in revenues, and/or significant additional costs to us. Any such incident could have an adverse effect on our financial condition, earnings, and cash flows. In addition, any of these or similar events could result in legal claims against us, cause environmental pollution, personal injury or death claims, damage to our properties or the properties of others, or loss of revenue by us or others.

We maintain liability insurance for some, but not all, risks associated with the operation of our natural gas pipelines and facilities, and the utility infrastructure services we provide. In connection with these liability insurance policies, we are 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. Liability insurance policies at Southwest require us to be responsible for the first \$1 million (self-insured retention) of each incident plus the first \$4 million in total claims above our self-insured retention in the policy year; while Centuri's self-insured retention amount is \$400,000 per occurrence. We cannot predict the likelihood that any future event will occur which will result in a claim exceeding these amounts; however, a large claim for which we were deemed liable would reduce our earnings up to and including these self-insurance maximums.

Failure to attract and retain an appropriately qualified employee workforce could adversely affect operations.

Our ability to implement our business strategy and serve our customers is dependent upon our continuing ability to attract and retain talented professionals and a technically skilled workforce, and being able to transfer the knowledge and expertise of our workforce to new employees as our aging employees retire. Failure to attract, hire, and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor could adversely affect our ability to manage and operate our business.

Our operating results may be adversely impacted by an economic downturn.

If an economic slowdown occurs, our financial condition, results of operations, and cash flows could be adversely affected. Fluctuations and uncertainties in the economy make it challenging for us to accurately forecast and plan future business activities and to identify risks that may affect our business, financial condition, and operating results. We cannot predict the timing, strength, or duration of any future economic slowdown. If the economy or the markets in which we operate decline from present levels, it may have an adverse effect on our business, financial condition, and results of operations.

Risk Factors that Apply to Southwest Gas Holdings, Inc. and Natural Gas Operations

Governmental policies and regulatory actions can reduce our earnings or cash flows.

Regulatory commissions set our utility customer rates and determine what we can charge for our rate-regulated services. Our ability to obtain timely future rate increases depends on regulatory discretion. Governmental policies and regulatory actions, including those of the ACC, CPUC, FERC, and PUCN relating to allowed rates of return, rate structure, purchased gas and investment recovery, operation and construction of facilities, present or prospective wholesale and retail competition including electrification or decarbonization policies or proposed policies by governmental entities or other parties, changes in tax laws and policies (including regulatory recovery or refunds thereof), and changes in and compliance with environmental and safety laws, including state or federal EPA or PHMSA regulations, and regulations placed on us or our customers regarding the product we deliver in meeting customer energy needs could reduce our earnings. Risks and uncertainties relating to delays in obtaining, or

failure to obtain, regulatory approvals, conditions imposed in regulatory approvals, and determinations in regulatory investigations can also impact financial performance. The timing and amount of rate relief can materially impact results of operations. The timing and amount associated with the recovery of regulatory assets and associated with the return of regulatory liabilities can materially impact cash flows.

In general, we are unable to predict what types of conditions might be imposed on Southwest or what types of determinations might be made in pending or future regulatory proceedings or investigations. We nevertheless believe that it is not uncommon for conditions to be imposed in regulatory proceedings, for Southwest to agree to conditions as part of a settlement of a regulatory proceeding, or for determinations to be made in regulatory investigations that reduce our earnings and liquidity. For example, we may request recovery of a particular operating expense in a general rate case filing that a regulator disallows, negatively impacting our earnings if the expense continues to be incurred. Southwest records regulatory assets in its consolidated financial statements to reflect the ratemaking and regulatory decision-making authority of the regulators, as allowed by U.S. GAAP. The creation of a regulatory asset allows for the deferral of costs which, absent a mechanism to recover such costs from customers in rates approved by regulators, would be charged to expense in the consolidated income statement in the period incurred. If there was a change in regulatory positions surrounding the collection of these deferred costs, there could be a material impact on financial position, results of operations, and cash flows.

We may be subject to increased costs related to the operation of natural gas pipelines under recent regulations concerning natural gas pipeline safety, which could have an adverse effect on our results of operations, financial condition, and/or cash flows.

We are committed to consistently monitoring and maintaining our distribution system and above-ground LNG storage operations to ensure that natural gas is acquired, stored and delivered safely, reliably, and efficiently. Due to the combustible nature of our product, we anticipate that the natural gas industry could be the subject of increased federal, state, and local regulatory oversight over time. We continue to work diligently with industry associations and federal, state, and local regulators to ensure compliance with any applicable laws. We expect there to be increased costs associated with compliance (and potential penalties for any non-compliance) with applicable laws. If these costs are not recoverable in our customer rates, or if there are delays in recoverability due to regulatory lag, they could have a negative impact on our operating costs and financial results.

We rely on having access to interstate pipelines' transportation capacity. If these pipelines and related transportation capacity were not available, it could impact our ability to meet our customers' full requirements.

We must acquire both sufficient natural gas supplies and interstate pipeline capacity to meet customer requirements. We must contract for reliable and adequate delivery capacity for our distribution system, while considering the dynamics of the interstate pipeline capacity market, our own in-system resources, as well as the characteristics of our customer base. Interruptions to or reductions of interstate pipeline service caused by physical constraints, excessive customer usage, or other force majeure could reduce our normal supply of gas. Restrictions placed on pipelines or the extractive and mid-stream industries could disrupt our business and reduce cash flows and earnings. A prolonged interruption or reduction of interstate pipeline service or availability of natural gas in any of our jurisdictions, particularly during the winter heating season, would reduce cash flow and earnings.

Our earnings may be materially impacted due to volatility in the cash surrender value of our company-owned life insurance policies during periods in which stock market changes are significant.

We have life insurance policies on members of management and other key employees to indemnify ourselves against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. Cash surrender values are directly influenced by the investment portfolio underlying the insurance policies. This portfolio includes both equity and fixed income (mutual fund) investments. As a result, the cash surrender value (but not the net death benefits) moves up and down consistent with the movements in the broader stock and bond markets. Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, changes in the cash surrender value components of company-owned life insurance policies, as they progress towards the ultimate death benefits, are also recorded without tax consequences. Currently, we intend to hold the company-owned life insurance policies for their duration. Changes in the cash surrender value of company-owned life insurance policies, except as related to the purchase of additional policies, affect our earnings but not our cash flows.

The cost of providing pension and postretirement benefits is subject to changes in pension asset values, changing demographics, and actuarial assumptions which may have an adverse effect on our financial results.

We provide pension and postretirement benefits to eligible employees. Our costs of providing such benefits are subject to changes in the market value of our pension fund assets, changing demographics, life expectancies of beneficiaries, current and future legislative changes, and various actuarial calculations and assumptions. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, withdrawal rates, interest rates, and other factors. These differences may result in a significant impact on the amount of pension expense or other postretirement benefit costs recorded in future periods. For example, lower than assumed returns on investments and/or reductions in bond yields could result in increased contributions and higher pension expense which would have a negative impact on our cash flows and reduce net income.

Our liquidity, and in certain circumstances our earnings, may be reduced during periods in which natural gas prices are rising significantly or are more volatile.

Increases in the cost of natural gas may arise from a variety of factors, including weather, changes in demand, the level of production and availability of natural gas, transportation constraints, transportation capacity cost increases, federal and state energy and environmental regulation and legislation, the degree of market liquidity, natural disasters, wars and other catastrophic events, national and worldwide economic and political conditions, the price and availability of alternative fuels, and the success of our strategies in managing price risk.

Rate schedules in each of our service territories contain purchased gas adjustment clauses which permit us to file for rate adjustments to recover increases in the cost of purchased gas. Increases in the cost of purchased gas have no direct impact on our profit margins, but do affect cash flows and can therefore impact the amount of our capital resources. We have used short-term borrowings in the past to temporarily finance increases in purchased gas costs, and we expect to do so during 2020, if the need again arises.

We may file requests for rate increases to cover the rise in the cost of purchased gas. Due to the nature of the regulatory process, there is a risk of disallowance of full recovery of these costs during any period in which there has been a substantial run-up of these costs or our costs are more volatile. Any disallowance of purchased gas costs would reduce cash flows and earnings.

We may not be able to rely on rate decoupling to maintain stable financial position, results of operations, and cash flows.

Management has worked with 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. Rate structures in all service territories allow Southwest to separate or “decouple” the recovery of operating margin from natural gas consumption, though decoupled structures vary by state. In California, authorized operating margin levels vary by month. In Nevada and Arizona, the decoupled rate structures apply to most customer classes on the basis of margin per customer, which varies by month. Collectively, these mechanisms provide stability in annual operating margin. Significantly warmer-than-normal weather conditions in our service territories and other factors, such as climate change and alternative energy sources, may result in decreased cash flows attributable to lower natural gas sales and delays in recovering regulatory asset balances. Furthermore, continuation of the decoupled rate designs currently in place are subject to regulatory discretion, and if unfavorably modified or discontinued could adversely impact our financial position and results of operations.

A significant reduction in our credit ratings could materially and adversely affect our business, financial condition, and results of operations.

We cannot be certain that any of our current credit ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Our credit ratings are subject to change at any time in the discretion of the applicable ratings agencies. Numerous factors, including many which are not within our control, are considered by the ratings agencies in connection with assigning credit ratings.

Any future downgrade could increase our borrowing costs, which would diminish our financial results. We would likely be required to pay a higher interest rate in certain current, as well as future, financings, and our potential pool of investors and funding sources could decrease. A downgrade could require additional support in the form of letters of credit or cash or other collateral and otherwise adversely affect our business, financial condition, and results of operations.

Uncertain economic conditions may affect our ability to finance capital expenditures.

Our ability to finance capital expenditures and other matters will depend upon general economic conditions in the capital markets. Declining interest rates are generally believed to be favorable to utilities while rising interest rates are believed to be unfavorable because of the high capital costs of utilities. In addition, our authorized rate of return is based upon certain assumptions regarding interest rates. If interest rates are lower than assumed rates, our authorized rate of return in the future could be reduced. If interest rates are higher than assumed rates, it will be more difficult for us to earn our currently authorized rate of return.

Some of our debt carries a rate of interest linked to the London Interbank Offered Rate (“LIBOR”) and has a maturity date after December 31, 2021. If a change in indices, including the discontinuation of LIBOR, which is expected to occur after 2021, results in interest rate increases on our debt, debt service requirements will correspondingly increase, which could adversely affect our cash flow and operating results.

We require numerous permits and other approvals from various federal, state, and local governmental agencies, and others to operate our business, including for pipeline expansion or infrastructure development; any failure to obtain or maintain required permits or approvals, or other factors that could prevent or delay planned development, could negatively affect our business and results of operations.

Our existing and planned development projects require multiple permits and approvals. The acquisition, ownership and operation of natural gas pipelines and storage facilities require numerous permits, rights-of-way, approvals and certificates from federal, state, and local governmental agencies or others. Various factors may prevent or delay us from completing such projects or may

make completion more costly, including the inability to obtain approval, public opposition to the project, regulatory opposition to one or more projects or related programs or their delayed recovery and returns thereon, inability to obtain adequate financing, competition for labor and materials, construction delays, cost overruns, and inability to negotiate acceptable agreements relating to rights-of-way, construction or other material development components. Once received, approvals may be subject to litigation, and projects may be delayed or approvals reversed. If there is a delay in obtaining any required approvals, or if we fail to obtain or maintain any required approvals or to comply with any applicable laws or regulations, we may not be able to construct or operate our facilities, may not be able to adequately service existing customers or support customer growth, or such conditions could cause us to incur additional costs. Such conditions could negatively impact our earnings.

Risk Factors that Apply to Southwest Gas Holdings, Inc. and Utility Infrastructure Services

Weather conditions in Centuri's operating areas can adversely affect operations, financial position, and cash flows.

Centuri's results of operations, financial position, and cash flows can be significantly impacted by changes in weather that affect the ability of Centuri to provide utility companies with contracted-for trenching, installation, and replacement of underground pipes, as well as maintenance services for energy distribution systems. Generally, Centuri's revenues are lowest during the first quarter of the year due to less favorable winter weather conditions. These conditions also require certain areas to scale back their workforce at times during the winter season, presenting challenges associated with maintaining an adequately skilled labor force when it comes time to re-staff its work crews following the winter layoffs.

Fixed-price contracts at Centuri are subject to potential losses that could adversely affect results of operations.

Centuri enters into a variety of types of contracts customary in the underground utility construction industry. These contracts include unit-priced contracts (including unit-priced contracts with revenue caps), time and material (cost plus) contracts, and fixed-price (lump sum) contracts. Contracts with caps and fixed-price arrangements can be susceptible to constrained profits, or even losses, especially those contracts that cover an extended-duration performance period. This is due, in part, to the necessity of estimating costs far in advance of the completion date (at bid inception). Unforeseen inflation, or other costs unanticipated at inception, can detrimentally impact profitability for these types of contracts.

Loss of one or more significant customers could adversely affect the results of the utility infrastructure services segment.

During 2019, over half of utility infrastructure services revenues were generated from eight customers. This concentration of risk could be impactful to operating results if construction work slowed or halted with one or more of these customers, if competition for work increased, or if existing contracts were not replaced or extended.

Disruptions in labor relations with Centuri's employees could adversely affect results of operations.

The majority of Centuri's labor force is covered by collective bargaining agreements with labor unions, which is typical of the utility infrastructure services industry. Labor disruptions, boycotts, strikes, or significant negotiated wage and benefit increases at Centuri, whether due to employee turnover or otherwise, could have a material adverse effect on Centuri's business and our results of operations and cash flows.

Loss of key area personnel and competitive pricing.

The productivity of Centuri's labor force and its ongoing relationship with clients is largely dependent on those serving in foreman, general foreman, regional, and executive level management positions. The ability to retain these individuals, due in large part to the competitive nature of the utility infrastructure service business, is necessary for the ongoing success and growth of Centuri. Further, the competitive environment within which Centuri performs work creates pricing pressures, specifically when its unionized business segment is bidding against non-union competitors. This competition could adversely impact Centuri's business, financial condition, results of operations, and cash flows.

Clients' budgetary constraints, regulatory support or decisions, and financial condition.

The majority of Centuri's clients are regulated utilities, whose capital budgets are influenced significantly by the various public utility commissions. As a result, the timing and volume of work performed by Centuri is largely dependent on the regulatory environment in its operating areas and the related client capital constraints. If budgets of Centuri's clients are reduced, or regulatory support for capital projects and programs are diminished, it could have a material adverse effect on our business, results of operations, and cash flows. Additionally, the impact of new regulatory and compliance requirements could result in productivity inefficiencies and adversely impact Centuri's results of operations and cash flows, or timing delays in their realization.

Changing and uncertain work environment and conditions.

Centuri performs work in a variety of geographic locations, each presenting unique environmental, surface, and subsurface conditions. As a consequence of work being performed under change orders when unexpected conditions are encountered, Centuri periodically experiences delays relating to billing and payment under these altered conditions.

Reliance on third-party suppliers and subcontractors.

While Centuri maintains oversight of those third-party suppliers and subcontractors it utilizes to assist with certain aspects of the work it performs for clients, any delay or failure by these parties in the completion of their portion of a given project may result in delays in the overall progress of the project or cause us to incur additional costs, thereby potentially impacting Centuri's overall profitability.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The plant investment of Southwest consists primarily of transmission and distribution mains, compressor stations, peak shaving/storage facilities, service lines, meters, and regulators, which comprise the pipeline systems and facilities located in and around the communities served. Southwest also includes other properties such as land, buildings, furnishings, work equipment, vehicles, and software systems in utility plant. The northern Nevada and northern California properties of Southwest are referred to as the northern system; the Arizona, southern Nevada, and southern California properties are referred to as the southern system. Total gas plant at December 31, 2019 was \$8 billion, including construction work in progress. It is the opinion of management that the properties of Southwest are suitable and adequate for its purposes.

Substantially all gas main and service lines are constructed across property owned by others under right-of-way grants obtained from the record owners thereof, under the streets and on the grounds of municipalities under authority conferred by franchises or otherwise, or beneath public highways or public lands under authority of various federal and state statutes. None of the numerous county and municipal franchises are exclusive, and some are of limited duration. These franchises are renewed regularly as they expire, and Southwest anticipates no serious difficulties in obtaining future renewals.

With respect to the right-of-way grants, Southwest generally has had continuous and uninterrupted possession and use of such rights-of-way, and the associated gas mains and service lines, commencing with the initial stages of construction of such facilities. Permits have been obtained from public authorities and other governmental entities in certain instances to cross or to lay facilities along roads and highways. These permits typically are revocable at the election of the grantor, and Southwest occasionally must relocate its facilities when requested to do so by the grantor. Permits have also been obtained from railroad companies to cross over or under railroad lands or rights-of-way, which in some instances require annual or other periodic payments and are revocable at the election of the grantors.

Southwest, through two subsidiaries, operates two primary pipeline transmission systems:

- a system (including an LNG storage facility) owned by Paiute extending from the Idaho-Nevada border to the Reno, Sparks, and Carson City areas and communities in the Lake Tahoe area in both California and Nevada and other communities in northern and western Nevada; and
- a system extending from the Colorado River at the southern tip of Nevada to the Las Vegas distribution area.

Southwest provides natural gas service in parts of Arizona, Nevada, and California. Service areas in Arizona include most of the central and southern areas of the state including Phoenix, Tucson, Yuma, and surrounding communities. Service areas in northern Nevada include Carson City, Yerington, Fallon, Lovelock, Winnemucca, and Elko. Service areas in southern Nevada include the Las Vegas valley (including Henderson and Boulder City), Laughlin, and Mesquite. Service areas in southern California include Barstow, Big Bear, Needles, and Victorville. Service areas in northern California include the Lake Tahoe area and Truckee.

Information on properties of Centuri can be found in this Form 10-K under Utility Infrastructure Services under Part I, which by this reference is incorporated herein.

Item 3. LEGAL PROCEEDINGS

The Company and Southwest are 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 or Southwest's financial position or results of operations.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The listing of the executive officers of the Company are set forth under **Part III Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**, which by this reference is incorporated herein.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market on which the common stock of the Company is traded is the New York Stock Exchange and the ticker symbol of the stock is "SWX." At February 18, 2020, there were 12,032 holders of record of common stock, and the market price of the common stock was \$79.45. The dividends on and related information relating to the Company's common stock required by this item are included in the 2019 Annual Report to Stockholders filed as an exhibit hereto and incorporated herein by reference.

Dividends are payable on the Company's common stock at the discretion of the Board of Directors (the "Board"). In setting the dividend rate, the Board considers, among other factors, current and expected future earnings levels, our ongoing capital expenditure plans and expected external funding needs, our payout ratio, and our ability to maintain strong credit ratings and liquidity. The Company has paid dividends on its common stock since 1956 and has increased that dividend each year since 2007. In February 2020, the Board elected to increase the quarterly dividend from \$0.545 to \$0.570 per share, representing a 4.6% increase, effective with the June 2020 payment.

Item 6. SELECTED FINANCIAL DATA

Information required by this item is included in the 2019 Annual Report to Stockholders and is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information required by this item is included in the 2019 Annual Report to Stockholders and is incorporated herein by reference.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various forms of market risk, including commodity price risk, rate design risk, interest rate risk, and foreign currency exchange rate risk. The following describes our exposure to these risks.

Commodity Price Risk

In managing its natural gas supply portfolios, Southwest has historically entered into short duration (generally one year or less) fixed-price contracts and variable-price contracts (firm and spot). Southwest has experienced price volatility over the past several years and such volatility is expected to continue into 2020 and beyond.

Southwest is protected financially from commodity price risk by deferred energy or purchased gas adjustment (collectively "PGA") mechanisms in each of its jurisdictions. These mechanisms generally allow Southwest to defer over- or under-collections of gas costs to PGA balancing accounts. With regulatory approval, Southwest can either refund amounts over-collected or recoup amounts under-collected in future periods. In addition to the PGA mechanism, Southwest has historically utilized Volatility Mitigation Programs (VMPs) in attempt to further reduce price volatility for customers. During 2019, Southwest sought to fix the price on a portion (up to 25% in the Arizona and California jurisdictions) of its natural gas portfolio using any combination of fixed-price contracts and derivative instruments (fixed-for-floating swaps), and where available, natural gas storage. For periods beyond October 2020, Southwest does not currently plan to make fixed-price term or swap purchases for the Arizona or Nevada jurisdictions, however, it will continue to make fixed-price purchases for the California jurisdictions.

Southwest's natural gas purchasing practices are subject to prudence reviews by the various regulatory bodies in each jurisdiction. PGA changes affect cash flows and potentially short-term borrowing requirements, but do not directly impact profit margin.

Rate Design Risk

Rate design is the primary mechanism available to Southwest to mitigate weather risk. All of Southwest's service territories have decoupled rate structures which mitigate weather risk. In California, CPUC regulations allow Southwest to decouple operating margin from usage and offset weather risk based on monthly margin levels. In Nevada and Arizona, a decoupled rate structure applies to most customer classes based on monthly margin per customer benchmarks. All such mechanisms provide stability in annual operating margin by insulating us from the effects of lower usage (including volumes associated with unusual weather).

With decoupled rate structures, Southwest's operating margin is limited during unusually cold weather. Additionally, Southwest is not assured that decoupled rate structures will continue to be supported in future rate cases.

Similarly, while Southwest has in place ongoing infrastructure replacement protocol for old or compromised pipeline, which it replaces regardless of regulatory lag for the recovery of or return on the property being replaced, in recent years, Southwest has been afforded favorable treatment in replacing existing infrastructure that does not pose an immediate threat of rupture, in support of reliability and general safety overall. These programs lessen or remove the financial pitfalls to replacement in between rate cases by providing for the recovery of and return on the expenditures. The programs take many forms, including the replacement of Early Vintage Plastic Pipe, Vintage Steel Pipe, and Customer-Owned Yard Lines, in addition to the conversion of master-metered mobile home parks to individually metered mobile homes. Southwest is not assured that these programs will continue to be supported in future regulatory proceedings.

Interest Rate Risk

Changes in interest rates could adversely affect earnings or cash flows. The primary interest rate risk for the Company is the risk of increasing interest rates on variable-rate obligations. Interest rate risk sensitivity analysis is used to measure this risk by computing estimated changes in cash flows as a result of assumed changes in market interest rates. In Nevada, fluctuations in interest rates on \$150 million of variable-rate Industrial Development Revenue Bonds ("IDRBs") are tracked and recovered from customers through an interest balancing account, which mitigates risk to earnings and cash flows from interest rate fluctuations on these IDRBs between general rate cases. The following table represents the variable rate debt as of December 31, 2019 and 2018 and interest rate sensitivity analysis for a hypothetical 1% change in interest rates, assuming a constant outstanding balance in such debt over the next twelve months:

(Millions of dollars)	2019 (1)	Increase/Decrease in Interest Expense from 1% Rate Change	2018 (1)	Increase/Decrease in Interest Expense from 1% Rate Change
Variable Rate Debt:				
Southwest	\$ 394.0	\$ 3.94	\$ 352.0	\$ 3.52
Centuri	304.8	3.05	255.9	2.56
Corporate	17.0	0.17	—	—
Total Southwest Gas Holdings, Inc.	<u>\$ 715.8</u>	<u>\$ 7.16</u>	<u>\$ 607.9</u>	<u>\$ 6.08</u>

(1) Excludes the IDRBs noted above.

Foreign Currency Exchange Rate Risk

Centuri owns infrastructure services businesses that operate in Canada. Due to these operations, the Company is exposed to market risk associated with currency exchange rate fluctuations between the Canadian dollar and the U.S. dollar. Foreign currency translation risk is the risk that exchange rate gains or losses arise from translating foreign entities' statements of income and balance sheets from their functional currency (the Canadian Dollar) to our reporting currency (the U.S. Dollar) for consolidation purposes. During 2019, translation adjustments due to fluctuations in exchange rates were not significant. We do not have significant exposure to other foreign currency exchange rate fluctuations.

Other risk information is included in **Item 1A. Risk Factors** of this report.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Southwest Gas Holdings and Subsidiaries, and of Southwest, including the notes thereto, together with the reports of PricewaterhouseCoopers LLP, are included in the 2019 Annual Report to Stockholders and are incorporated herein by reference.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Management of Southwest Gas Holdings, Inc. and Southwest Gas Corporation has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that

are designed to provide reasonable assurance that information required to be disclosed in their respective reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to management of each company, including each respective Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. 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 may not be detected.

Based on the most recent evaluation, as of December 31, 2019, management of Southwest Gas Holdings, Inc., 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.

Based on the most recent evaluation, as of December 31, 2019, management of Southwest Gas Corporation, including the Chief Executive Officer and Chief Financial Officer, believe Southwest's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

Internal Control Over Financial Reporting

The reports of management of Southwest Gas Holdings, Inc. and Southwest Gas Corporation required to be included herein are incorporated by reference to the information reported in the 2019 Annual Report to Stockholders under the caption "Management's Report on Internal Control Over Financial Reporting."

The report of the independent registered public accounting firm required to be included herein by Southwest Gas Holdings, Inc. is incorporated by reference to the information reported in the 2019 Annual Report to Stockholders under the caption "Report of Independent Registered Public Accounting Firm."

This annual report on Form 10-K does not include an attestation report of Southwest Gas Corporation's registered public accounting firm regarding internal control over financial reporting pursuant to rules of the SEC that permit Southwest Gas Corporation to provide only management's report in this annual report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2019 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

There have been no changes in Southwest's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the fourth quarter of 2019 that have materially affected, or are likely to materially affect Southwest's internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) *Identification of Directors.* Information with respect to Directors will be set forth under the heading "Election of Directors" in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

(b) *Identification of Executive Officers.* The following sets forth the name, age, position, and period the position was held during the last five years for each of the Executive Officers as of December 31, 2019.

Name	Age	Position	Period Position Held
John P. Hester	57	President and Chief Executive Officer *	2015-Present
Karen S. Haller	56	Executive Vice President/Chief Legal and Administrative Officer *	2019-Present
		Executive Vice President/Chief Legal and Administrative Officer and Corporate Secretary *	2018-2019
		Senior Vice President/General Counsel and Corporate Secretary *	2015-2018
Gregory J. Peterson	60	Senior Vice President/Chief Financial Officer *	2018-Present
		Vice President/Controller/Chief Accounting Officer *	2015-2018
Eric DeBonis	52	Senior Vice President/Operations **	2015-Present
Jose L. Esparza, Jr.	45	Senior Vice President/Information Services/Customer Engagement **	2019-Present
		Vice President/Customer Engagement **	2018-2019
		Vice President/Energy Solutions **	2015-2018
Justin L. Brown	47	Senior Vice President/General Counsel **	2018-Present
		Vice President/Regulation & Public Affairs **	2015-2018
Paul M. Daily	63	President and Chief Executive Officer - Centuri Group, Inc.	2016-Present

* Position held at Southwest Gas Holdings, Inc. (formed January 2017) and Southwest Gas Corporation

** Position held at Southwest Gas Corporation only

(c) *Identification of Certain Significant Employees.* None.

(d) *Family Relationships.* No Directors or Executive Officers are related either by blood, marriage, or adoption.

(e) *Business Experience.* Information with respect to Directors will be set forth under the heading “Election of Directors” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein. All executive officers have held responsible positions with the Company for at least five years as described in (b) above with the exception of Paul M. Daily, Chief Executive Officer of Centuri Group, Inc. Prior to his position with Centuri, Mr. Daily founded Paul M. Daily & Associates in 2014 and served as principal advisor to stakeholders in long-term planning for growth and diversification, both organically and through mergers and acquisitions.

(f) *Involvement in Certain Legal Proceedings.* None.

(g) *Promoters and Control Persons.* None.

(h) *Audit Committee Financial Expert.* Information with respect to the designated financial experts of the Board of Directors’ audit committee will be set forth under the heading “Committees of the Board” in the definitive 2020 Proxy Statement, which by this reference is incorporated herein.

(i) *Identification of the Audit Committee.* Information with respect to the composition of the Board of Directors’ audit committee will be set forth under the heading “Committees of the Board” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

(j) *Material Changes in Director Nomination Procedures for Security Holders.* None.

Delinquent Section 16(a) Reports. Information with respect to delinquent Section 16(a) reports will be set forth under the heading “Delinquent Section 16(a) Reports” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

Code of Business Conduct and Ethics. We have adopted a code of business conduct and ethics for employees, including the president and chief executive officer, chief financial officer, chief accounting officer, and non-employee directors. A code of ethics is defined as written standards that are reasonably designed to deter wrongdoing and to promote: 1) honest and ethical conduct;

2) full, fair, accurate, timely, and understandable disclosure in reports and documents that a registrant files; 3) compliance with applicable governmental laws, rules, and regulations; 4) the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and 5) accountability for adherence to the code. The Code of Business Conduct and Ethics can be viewed on our website (www.swgasholdings.com). If any substantive amendments to the Code of Business Conduct and Ethics are made or any waivers are granted, including any implicit waiver, from a provision of the Code of Business Conduct and Ethics, to our president and chief executive officer, chief financial officer and chief accounting officer, the nature of such amendment or waiver will be disclosed on www.swgasholdings.com.

Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation will be set forth under the heading “Executive Compensation” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

(a) *Compensation Committee Interlocks and Insider Participation.* Information with respect to Compensation Committee interlocks and insider participation is set forth under the heading “Governance of the Company” in the definitive 2020 Proxy Statement, which by this reference is incorporated herein.

(b) *Compensation Committee Report.* Information with respect to the Compensation Committee Report is set forth under the heading “Compensation Committee Report” in the definitive 2020 Proxy Statement, which by this reference is incorporated herein.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

(a) *Security Ownership of Certain Beneficial Owners.* Information with respect to security ownership of certain beneficial owners is set forth under the heading “Securities Ownership by Directors, Director Nominees, Executive Officers, and Certain Beneficial Owners” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

(b) *Security Ownership of Management.* Information with respect to security ownership of management is set forth under the heading “Securities Ownership by Directors, Director Nominees, Executive Officers, and Certain Beneficial Owners” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

(c) *Changes in Control.* None.

(d) *Securities Authorized for Issuance Under Equity Compensation Plans.*

The following table sets forth the number of securities authorized for issuance under the Company’s equity compensation plans at December 31, 2019.

Plan category (Thousands of shares)	Number of securities to be issued upon vesting of award (a)	Weighted-average grant date fair value of award (b)	Number of securities remaining available for future issuance (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders:			
Management Incentive Plan shares	29	\$ 79.16	701
Restricted Stock Units (1)	365	60.94	1,220
Total Equity compensation plans approved by security holders	394	—	1,921
Equity compensation plans not approved by security holders	—	—	—
Total	394	\$ —	1,921

(1) The number of securities to be issued upon vesting of awards includes 111,000 performance shares, which was derived by assuming that target performance will be achieved during the relevant performance period. The number of securities remaining available for future issuance includes shares relating to the Omnibus incentive plan.

Additional information regarding the equity compensation plans is included in Note 9 - Share-Based Compensation of the notes to consolidated financial statements in the 2019 Annual Report to Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information with respect to certain relationships and related transactions, and director independence is set forth under the heading “Governance of the Company” in the definitive 2020 Proxy Statement, which will be filed with the SEC within 120 days after December 31, 2019 and by this reference is incorporated herein.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to accounting fees and services associated with PricewaterhouseCoopers LLP is set forth under the heading “Selection of Independent Registered Public Accounting Firm” in the definitive 2020 Proxy Statement, which by this reference is incorporated herein.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report on Form 10-K:

(1) The Consolidated Financial Statements of the Company and Southwest (including the Report of Independent Registered Public Accounting Firm) required to be reported herein are incorporated by reference to the information reported in the 2019 Annual Report to Stockholders under the following captions:

Southwest Gas Holdings, Inc. Consolidated Balance Sheets	23
Southwest Gas Holdings, Inc. Consolidated Statements of Income	24
Southwest Gas Holdings, Inc. Consolidated Statements of Comprehensive Income	25
Southwest Gas Holdings, Inc. Consolidated Statements of Cash Flows	26
Southwest Gas Holdings, Inc. Consolidated Statements of Equity	27
Southwest Gas Corporation Consolidated Balance Sheets	28
Southwest Gas Corporation Consolidated Statements of Income	29
Southwest Gas Corporation Consolidated Statements of Comprehensive Income	30
Southwest Gas Corporation Consolidated Statements of Cash Flows	31
Southwest Gas Corporation Consolidated Statements of Equity	32
Notes to Consolidated Financial Statements	33
Management's Report on Internal Control Over Financial Reporting	77
Report of Independent Registered Public Accounting Firm	78
Report of Independent Registered Public Accounting Firm	80

(2) All schedules have been omitted because the required information is either inapplicable or included in the notes to consolidated financial statements.

(3) See **LIST OF EXHIBITS**.

(b) See **LIST OF EXHIBITS**.

Item 16. FORM 10-K SUMMARY.

None.

Exhibit Number	Description of Document
2.01	<u>Agreement and Plan of Merger entered into on September 20, 2019 by Southwest Gas Holdings, Inc., a California corporation and Southwest Gas Holdings, Inc., a Delaware corporation. Incorporated herein by reference to Exhibit 2.1 to Form 8-K12B dated September 20, 2019, File No. 001-37976.</u>
3(i)	<u>Certificate of Incorporation of Southwest Gas Holdings, Inc., a Delaware corporation. Incorporated herein by reference to Exhibit 3.1 to Form 8-K12B dated September 20, 2019, File No. 001-37976.</u>
3(ii)	<u>Bylaws of Southwest Gas Holdings, Inc., a Delaware corporation. Incorporated herein by reference to Exhibit 3.2 to Form 8-K12B dated September 20, 2019, File No. 001-37976.</u>
4.01	<u>Indenture between City of Big Bear Lake, California, and Harris Trust and Savings Bank as Trustee, dated December 1, 1993, with respect to the issuance of \$50,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation Project), 1993 Series A, due 2028. Incorporated herein by reference to Exhibit 4.11 to Form 10-K for the year ended December 31, 1993, File No. 1-07850.</u>
4.02	<u>Indenture between Southwest Gas Corporation and Harris Trust and Savings Bank dated July 15, 1996, with respect to Debt Securities. Incorporated herein by reference to Exhibit 4.04 to Form 8-K dated July 26, 1996, File No. 1-07850.</u>
4.03	<u>First Supplemental Indenture of Southwest Gas Corporation to Harris Trust and Savings Bank dated August 1, 1996, supplementing and amending the Indenture dated as of July 15, 1996, with respect to 7 1/2% and 8% Debentures, due 2006 and 2026, respectively. Incorporated herein by reference to Exhibit 4.11 to Form 8-K dated July 31, 1996, File No. 1-07850.</u>
4.04	<u>Second Supplemental Indenture of Southwest Gas Corporation to Harris Trust and Savings Bank dated December 30, 1996, supplementing and amending the Indenture dated as of July 15, 1996, with respect to Medium-Term Notes. Incorporated herein by reference to Exhibit 4.04 to Form 8-K dated December 30, 1996, File No. 1-07850.</u>
4.05	<u>Indenture of Trust between Clark County, Nevada, and the BNY Midwest Trust Company, as Trustee, dated as of March 1, 2003, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2003. Incorporated herein by reference to Exhibit 10.01 to Form 10-Q for the quarter ended September 30, 2008, File No. 1-07850.</u>
4.06	<u>Indenture of Trust between Clark County, Nevada and The Bank of New York Mellon Trust Company, N.A., as Trustee, dated as of September 1, 2008, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2008A. Incorporated herein by reference to Exhibit 10.02 to Form 10-Q for the quarter ended September 30, 2008, File No. 1-07850.</u>
4.07	<u>Indenture of Trust between Clark County, Nevada and The Bank of New York Mellon Trust Company, N.A., as Trustee, dated December 1, 2009, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2009A. Incorporated herein by reference to Exhibit 4.27 to Form 10-K for the year ended December 31, 2009, File No. 1-07850.</u>
4.08	<u>Note Purchase Agreement, dated November 18, 2010, by and between Southwest Gas Corporation and Metropolitan Life Insurance Company, John Hancock Life Insurance Company (U.S.A.), certain of their respective affiliates, and Union Fidelity Life Insurance Company. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated November 18, 2010, File No. 1-07850.</u>
4.09	<u>Amendment No. 1 to Note Purchase Agreement, dated March 28, 2014, by and among Southwest Gas Corporation and the holders of the Notes. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated March 31, 2014, File No. 1-07850.</u>
4.10	<u>Amendment No. 2 to Note Purchase Agreement, dated September 30, 2016, by and among Southwest Gas Corporation and the holders of the Notes. Incorporated herein by reference to Exhibit 4.02 to Form 10-Q for the quarter ended September 30, 2016, File No. 1-07850.</u>
4.11	<u>Form of 6.1% Senior Note due 2041. Incorporated herein by reference to Exhibit 4.2 to Form 8-K dated November 18, 2010, File No. 1-07850.</u>
4.12	<u>Indenture, dated December 7, 2010, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated December 7, 2010, File No. 1-07850.</u>

Exhibit Number	Description of Document
4.13	<u>First Supplemental Indenture, dated as of December 10, 2010, supplementing and amending the indenture dated as of December 7, 2010, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as trustee (including the Form of 4.45% Senior Notes due 2020), Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated December 10, 2010, File No. 1-07850.</u>
4.14	<u>Indenture, dated March 23, 2012, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. 3.875% Notes due 2022. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated March 20, 2012, File No. 1-07850.</u>
4.15	<u>Indenture, dated as of October 4, 2013, by and between Southwest Gas Corporation and the Bank of New York Mellon Trust Company, N.A., as Trustee. 4.875% Notes due 2043. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated October 1, 2013. File No. 1-07850.</u>
4.16	<u>Southwest Gas Holdings, Inc. Dividend Reinvestment and Direct Stock Purchase Plan. Incorporated by reference to prospectus 424(b)(5) dated December 17, 2018, File No. 333-222047.</u>
4.17	<u>Indenture, dated September 29, 2016, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. 3.80% Senior Notes due 2046. Incorporated herein by reference to Exhibit 4.01 to Form 8-K dated September 26, 2016, File No. 1-07850.</u>
4.18	<u>Indenture, dated March 15, 2018, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated March 15, 2018, File Nos. 001-37976 and 001-07850.</u>
4.19	<u>First Supplemental Indenture, dated March 15, 2018, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated herein by reference to Exhibit 4.2 to Form 8-K dated March 15, 2018, File Nos. 001-37976 and 001-07850.</u>
4.20	<u>Form of 3.70% Senior Note due 2028 (included in Exhibit 4.23). Incorporated herein by reference to Exhibit 4.24 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>
4.21	<u>Indenture, dated as of May 31, 2019, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated herein by reference to Exhibit 4.1 to Form 8-K dated May 28, 2019. File No. 1-07850.</u>
4.22	<u>First Supplemental Indenture, dated May 31, 2019, by and between Southwest Gas Corporation and The Bank of New York Mellon Trust Company, N.A., as Trustee. Incorporated herein by reference to Exhibit 4.2 to Form 8-K dated May 28, 2019. File No. 1-07850.</u>
4.23	<u>Form of 4.150% Senior Note due 2049. Incorporated by reference to Exhibit 4.3 to Form 8-K dated May 28, 2019. File No. 1-07850.</u>
4.24*	<u>Description of Common Stock of Southwest Gas Holdings, Inc.</u>
4.25	The Company and Southwest hereby agree to furnish to the SEC, upon request, a copy of any instruments defining the rights of holders of long-term debt issued by Southwest Gas Holdings or its subsidiaries; the total amount of securities authorized thereunder does not exceed 10% of the consolidated total assets of Southwest Gas Holdings and its subsidiaries.
10.01	<u>Project Agreement between Southwest Gas Corporation and City of Big Bear Lake, California, dated as of December 1, 1993. Incorporated herein by reference to Exhibit 10.05 to Form 10-K for the year ended December 31, 1993, File No. 1-07850.</u>
10.02*	<u>Southwest Gas Corporation Supplemental Executive Retirement Plan, amended and restated as of December 28, 2016. Incorporated herein by reference to Exhibit 10.02 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>
10.03*	<u>Southwest Gas Holdings, Inc. Management Incentive Plan, amended and restated as of February 23, 2017. Incorporated herein by reference to Exhibit 10.03 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>
10.04*	<u>Southwest Gas Corporation Executive Deferral Plan, amended and restated December 28, 2016. Incorporated herein by reference to Exhibit 10.04 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>
10.05*	<u>Southwest Gas Corporation Directors Deferral Plan, amended and restated December 28, 2016. Incorporated herein by reference to Exhibit 10.05 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>

Exhibit Number	Description of Document
10.06	<u>Financing agreement dated as of March 1, 2003 by and between Clark County, Nevada, and Southwest Gas Corporation relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2003A, Series 2003B, Series 2003C, Series 2003D and Series 2003E. Incorporated herein by reference to Exhibit 10 to Form 10-Q for the quarter ended September 30, 2003, File No. 1-07850.</u>
10.07	<u>First Amendment to Financing Agreement by and between Clark County, Nevada, and Southwest Gas Corporation dated as of July 1, 2005, amending the Financing Agreement dated as of March 1, 2003, with respect to Clark County, Nevada Industrial Development Revenue Bonds Series 2003A, Series 2003B, Series 2003C, Series 2003D, and Series 2003E. Incorporated herein by reference to Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2005, File No. 1-07850.</u>
10.08	<u>Financing Agreement between Clark County, Nevada, and Southwest Gas Corporation, dated as of September 1, 2008, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2008A. Incorporated herein by reference to Exhibit 10.03 to Form 10-Q for the quarter ended September 30, 2008, File No. 1-07850.</u>
10.09	<u>Financing Agreement between Clark County, Nevada and Southwest Gas Corporation, dated December 1, 2009, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2009A. Incorporated herein by reference to Exhibit 10.21 to Form 10-K for the year ended December 31, 2009, File No. 1-07850.</u>
10.10	<u>Southwest Gas Corporation \$300 million Credit Facility. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 15, 2012, File No. 1-07850.</u>
10.11	<u>Amendment No. 1 to Revolving Credit Agreement, dated as of March 25, 2014, by and among Southwest Gas Corporation, each of the lenders parties to the Revolving Credit Agreement referred to therein, and the Bank of New York Mellon, as Administrative Agent. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 25, 2014, File No. 1-07850.</u>
10.12	<u>Amendment No. 2 to Revolving Credit Agreement, dated as of March 25, 2015, by and among Southwest Gas Corporation, each of the lenders parties to the Revolving Credit Agreement referred to therein, and the Bank of New York Mellon, as Administrative Agent. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 24, 2015, File No. 1-07850.</u>
10.13	<u>Amendment No. 3 to Revolving Credit Agreement, dated as of March 28, 2016, by and among Southwest Gas Corporation, each of the lenders parties to the Revolving Credit Agreement referred to therein, and the Bank of New York Mellon, as Administrative Agent. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 28, 2016, File No. 1-07850.</u>
10.14*	<u>Southwest Gas Holdings, Inc. 2006 Restricted Stock/Unit Plan, amended and restated as of December 28, 2016. Incorporated herein by reference to Exhibit 10.14 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.</u>
10.15*	<u>Form of Performance Share Award Agreement with Named Executive Officers. Incorporated herein by reference to Exhibit 10.19 to Form 10-K for the year ended December 31, 2016, File No. 1-07850.</u>
10.16*	<u>Form of Restricted Stock Unit Award Agreement with Named Executive Officers. Incorporated herein by reference to Exhibit 10.20 to Form 10-K for the year ended December 31, 2016, File No. 1-07850.</u>
10.17	<u>Amendment No. 4 to Revolving Credit Agreement, including amended and restated Credit Facility, dated as of March 28, 2017, by and among Southwest Gas Corporation, each of the lenders parties to the Revolving Credit Agreement referred to therein, and The Bank of New York Mellon, as Administrative Agent. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 28, 2017, File No. 1-7850.</u>
10.18	<u>Southwest Gas Holdings, Inc. \$100 million Credit Facility Agreement. Incorporated herein by reference to Exhibit 10.1 to Form 8-K dated March 28, 2017, File No. 001-37976.</u>
10.19*	<u>Centuri Employment Agreement with Paul Daily, Chief Executive Officer. Incorporated herein by reference to Exhibit 10.01 to Form 10-Q for the quarter ended June, 30 2017, File No. 1-07850.</u>
10.20*	<u>Centuri/NPL Executive Deferred Compensation Plan. Incorporated herein by reference to Exhibit 10.02 to Form 10-Q for the quarter ended June, 30 2017, File No. 1-07850.</u>
10.21*	<u>Centuri Long-term Capital Investment Program. Incorporated herein by reference to Exhibit 10.03 to Form 10-Q for the quarter ended June, 30 2017, File No. 1-07850.</u>

Exhibit Number	Description of Document
10.22*	Centuri Short-term Incentive Program. Incorporated herein by reference to Exhibit 10.01 to Form 10-Q for the quarter ended March 31, 2018, File Nos. 001-37976 and 001-07850.
10.23*	Southwest Gas Holdings, Inc. Omnibus Incentive Plan. Incorporated herein by reference to Appendix B to the Proxy Statement dated March 27, 2017, File No. 1-37976.
10.24*	Form of Change in Control Agreement with Officers. Incorporated herein by reference to Exhibit 10.24 to Form 10-K for the year ended December 31, 2017, File Nos. 001-37976 and 001-07850.
10.25	Centuri \$450 million Credit Facility Agreement. Incorporated herein by reference to Exhibit 10.25 to Form 10-K for the year ended December 31, 2017, File Nos. 001-37976 and 001-07850.
10.26*	Form of Centuri Construction Group, Inc. Short-term Incentive Program. Incorporated herein by reference to Exhibit 10.01 to Form 10-Q for the quarter ended March, 31 2018, File Nos. 001-37976 and 001-07850.
10.27*	Form of Centuri Construction Group, Inc. Executive Long-Term Incentive Plan. Incorporated herein by reference to Exhibit 10.02 to Form 10-Q for the quarter ended March, 31 2018, File Nos. 001-37976 and 001-07850.
10.28*	Southwest Gas Corporation Board of Directors Retirement Plan, amended and restated effective December 28, 2016. Incorporated herein by reference to Exhibit 10.28 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.
10.29*	Southwest Gas Corporation Directors Deferral Plan, amended and restated November 14, 2018. Incorporated herein by reference to Exhibit 10.29 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.
10.30*	First Amendment to Centuri and subsidiaries Credit Facility Agreement, the other credit parties referred to therein, and Wells Fargo Bank. Incorporated herein by reference to Exhibit 10.30 to Form 10-K for the year ended December 31, 2018, File Nos. 001-37976 and 1-7850.
10.31*	Amendment to the Centuri Group, Inc. Executive Long-Term Incentive Plan. Incorporated herein by reference to Exhibit 10.01 to form 10-Q for the quarter ended March 31, 2019, File Nos. 001-37976 and 1-7850.
10.32*	Amendment to the Centuri Group, Inc. Long-Term Capital Investment Plan. Incorporated herein by reference to Exhibit 10.02 to form 10-Q for the quarter ended March 31, 2019, File Nos. 001-37976 and 1-7850.
10.33*	Form of Paul Daily Award Agreement under the Centuri Group, Inc. Executive Long-Term Incentive Plan. Incorporated herein by reference to Exhibit 10.03 to form 10-Q for the quarter ended March 31, 2019, File Nos. 001-37976 and 1-7850.
10.34*	Southwest Gas Corporation Employees' Investment Plan. Incorporated herein by reference to Exhibit 4.1 to Form S-8 dated December 16, 2016, File No. 333-215145.
13.01	Portions of Southwest Gas Holdings, Inc. 2019 Annual Report to Stockholders incorporated by reference to the Form 10-K.
21.01	List of subsidiaries - Southwest Gas Holdings, Inc.
23.01	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm - Southwest Gas Holdings, Inc.
23.02	Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm - Southwest Gas Corporation.
31.01	Section 302 Certifications—Southwest Gas Holdings, Inc.
31.02	Section 302 Certifications—Southwest Gas Corporation.
32.01	Section 906 Certifications—Southwest Gas Holdings, Inc.
32.02	Section 906 Certifications—Southwest Gas Corporation.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

<u>Exhibit Number</u>	<u>Description of Document</u>
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Management Contracts or Compensation Plans

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 2, 2020

SOUTHWEST GAS HOLDINGS, INC.
(registrant)

By: /s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ ROBERT L. BOUGHNER</u> (Robert L. Boughner)	Director	March 2, 2020
<u>/s/ JOSÉ A. CÁRDENAS</u> (José A. Cárdenas)	Director	March 2, 2020
<u>/s/ THOMAS E. CHESTNUT</u> (Thomas E. Chestnut)	Director	March 2, 2020
<u>/s/ STEPHEN C. COMER</u> (Stephen C. Comer)	Director	March 2, 2020
<u>/s/ JOHN P. HESTER</u> (John P. Hester)	Director, President and Chief Executive Officer	March 2, 2020
<u>/s/ JANE LEWIS-RAYMOND</u> (Jane Lewis-Raymond)	Director	March 2, 2020
<u>/s/ ANNE L. MARIUCCI</u> (Anne L. Mariucci)	Director	March 2, 2020
<u>/s/ MICHAEL J. MELARKEY</u> (Michael J. Melarkey)	Chairman of the Board of Directors	March 2, 2020
<u>/s/ A. RANDALL THOMAN</u> (A. Randall Thoman)	Director	March 2, 2020
<u>/s/ THOMAS A. THOMAS</u> (Thomas A. Thomas)	Director	March 2, 2020
<u>/s/ LESLIE T. THORNTON</u> (Leslie T. Thornton)	Director	March 2, 2020
<u>/s/ GREGORY J. PETERSON</u> (Gregory J. Peterson)	Senior Vice President/ Chief Financial Officer	March 2, 2020
<u>/s/ LORI L. COLVIN</u> (Lori L. Colvin)	Vice President/Controller/ Chief Accounting Officer	March 2, 2020

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 2, 2020

SOUTHWEST GAS CORPORATION
(registrant)

By: /s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ JOHN P. HESTER</u> (John P. Hester)	Director, President and Chief Executive Officer	March 2, 2020
<u>/s/ MICHAEL J. MELARKEY</u> (Michael J. Melarkey)	Director	March 2, 2020
<u>/s/ KAREN S. HALLER</u> (Karen S. Haller)	Director, Executive Vice President/Chief Legal and Administrative Officer	March 2, 2020
<u>/s/ GREGORY J. PETERSON</u> (Gregory J. Peterson)	Director, Senior Vice President/ Chief Financial Officer	March 2, 2020
<u>/s/ LORI L. COLVIN</u> (Lori L. Colvin)	Vice President/Controller/ Chief Accounting Officer	March 2, 2020

DESCRIPTION OF COMMON STOCK

The following description of the Southwest Gas Holdings, Inc.'s ("Southwest Gas Holdings") common stock is only a summary and is qualified in its entirety by reference to our articles of incorporation and bylaws. Therefore, you should read carefully the more detailed provisions of our articles of incorporation and bylaws, copies of which have been filed with the Securities and Exchange Commission as exhibits to Southwest Gas Holdings Form 8-K12B dated September 20, 2019. References to "we," "us," "our" and "Southwest Gas Holdings" are to Southwest Gas Holdings, Inc., a Delaware corporation.

The authorized capital stock of Southwest Gas Holdings consists of (1) 120,000,000 shares of Southwest Gas Holdings common stock, with a \$1.00 par value, (2) 5,000,000 shares of preferred stock, without par value, and (3) 2,000,000 shares of preference stock, with a \$20.00 par value. No other classes of capital stock are authorized under our articles of incorporation.

The holders of Southwest Gas Holdings common stock are entitled to receive such dividends as the Southwest Gas Holdings board of directors may from time to time declare, subject to any rights of holders of outstanding shares of Southwest Gas Holdings preferred or preference stock. Except as otherwise provided by law, each holder of common stock is entitled to one vote per share on each matter submitted to a vote of a meeting of stockholders, subject to series voting rights of holders of preferred or preference stock.

In the event of any liquidation, dissolution or winding up of Southwest Gas Holdings, whether voluntary or involuntary, the holders of shares of Southwest Gas Holdings common stock, subject to any rights of the holders of outstanding shares of Southwest Gas Holdings preferred or preference stock, are entitled to receive any remaining assets of Southwest Gas Holdings after the discharge of its liabilities.

Holders of Southwest Gas Holdings common stock are not entitled to preemptive rights to subscribe for or purchase any part of any new or additional issue of stock or securities convertible into stock. Southwest Gas Holdings common stock does not contain any redemption provisions or conversion rights and is not liable to assessment or further call.

EQ Shareowner Services is the registrar and transfer agent for our common stock.

ANTI-TAKEOVER MATTERS

Our articles of incorporation and bylaws contain provisions that may have the effect of discouraging persons from acquiring large blocks of Southwest Gas Holdings stock or delaying or preventing a change in control of Southwest Gas Holdings. The material provisions which may have such an effect are:

- (a) provisions requiring a super-majority vote by holders of common stock in order to approve certain types of business combinations;
- (b) a provision permitting the Southwest Gas Holdings board of directors to make, amend or repeal the bylaws;
- (c) authorization for the Southwest Gas Holdings board of directors to issue preferred or preference stock in any series and to fix rights and preferences of the series (including, among other things, whether, and to what extent, the shares of any series will have voting rights and the extent of the preferences of the shares of any series with respect to dividends and other matters);
- (d) advance notice procedures with respect to proposals other than those adopted or recommended by the Southwest Gas Holdings board of directors; and
- (e) provisions permitting amendment of certain of these provisions only by an affirmative vote of the holders of at least 65 percent of the outstanding shares of Southwest Gas Holdings common stock entitled to vote.

Consolidated Selected Financial Data

Southwest Gas Holdings, Inc.

(Thousands of dollars, except per share amounts)	Year Ended December 31,				
	2019	2018	2017	2016	2015
Operating revenues	\$ 3,119,917	\$ 2,880,013	\$ 2,548,792	\$ 2,460,490	\$ 2,463,625
Operating expenses (1)	2,748,106	2,522,580	2,205,668	2,145,016	2,151,926
Operating income (1)	\$ 371,811	\$ 357,433	\$ 343,124	\$ 315,474	\$ 311,699
Net income attributable to Southwest Gas Holdings, Inc.	\$ 213,936	\$ 182,277	\$ 193,841	\$ 152,041	\$ 138,317
Total assets (2)	\$ 8,170,048	\$ 7,357,729	\$ 6,237,066	\$ 5,581,126	\$ 5,358,685
Capitalization:					
Total equity	\$ 2,505,914	\$ 2,251,590	\$ 1,812,403	\$ 1,661,273	\$ 1,592,325
Redeemable noncontrolling interest	84,542	81,831	—	22,590	16,108
Long-term debt, excluding current maturities	2,300,482	2,107,258	1,798,576	1,549,983	1,551,204
	\$ 4,890,938	\$ 4,440,679	\$ 3,610,979	\$ 3,233,846	\$ 3,159,637
Current maturities of long-term debt	\$ 163,512	\$ 33,060	\$ 25,346	\$ 50,101	\$ 19,475
Common stock data:					
Common equity percentage of capitalization	51.2%	50.7%	50.2%	51.4%	50.4%
Return on average common equity	9.0%	9.3%	11.2%	9.3%	8.9%
Basic earnings per share	\$ 3.94	\$ 3.69	\$ 4.04	\$ 3.20	\$ 2.94
Diluted earnings per share	\$ 3.94	\$ 3.68	\$ 4.04	\$ 3.18	\$ 2.92
Dividends declared per share	\$ 2.18	\$ 2.08	\$ 1.98	\$ 1.80	\$ 1.62
Payout ratio	55%	56%	49%	56%	55%
Book value per share	\$ 45.56	\$ 42.63	\$ 37.74	\$ 35.03	\$ 33.65
Market value per share	\$ 75.97	\$ 76.50	\$ 80.48	\$ 76.62	\$ 55.16
Market value to book value per share	167%	180%	213%	219%	164%
Common shares outstanding (000)	55,007	53,026	48,090	47,482	47,378
Number of common stockholders	12,094	12,541	13,077	13,619	14,153

(1) Periods prior to 2018 depict revised Operating expenses and Operating income for the reclassification of non-service cost components of net periodic benefit costs in both the Company's and Southwest's Consolidated Statements of Income due to the adoption of ASU 2017-07. Net income overall was not impacted. Refer to **Note 11 - Pension and Other Postretirement Benefits** in the notes to the consolidated financial statements in this Annual Report to Stockholders for further information relating to the adoption of this update.

(2) In 2019, the Company adopted FASB Topic 842 resulting in the addition of right-of-use ("ROU") assets in the Company's Consolidated Balance Sheet. Refer to **Note 2 - Utility Plant and Leases** in the notes to the consolidated financial statements in this Annual Report to Stockholders for further information relating to the adoption of this update.

Natural Gas Operations

(Thousands of dollars)	Year Ended December 31,				
	2019	2018	2017	2016	2015
Operating revenue	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308	\$ 1,321,412	\$ 1,454,639
Net cost of gas sold	385,164	419,388	355,045	397,121	563,809
Operating margin	983,775	938,340	947,263	924,291	890,830
Expenses					
Operations and maintenance (1)	422,174	404,813	391,321	381,964	369,832
Depreciation and amortization	215,620	191,816	201,922	233,463	213,455
Taxes other than income taxes	62,328	59,898	57,946	52,376	49,393
Operating income (1)	\$ 283,653	\$ 281,813	\$ 296,074	\$ 256,488	\$ 258,150
Contribution to consolidated net income	\$ 163,171	\$ 138,842	\$ 156,818	\$ 119,423	\$ 111,625
Total assets	\$ 6,798,746	\$ 6,141,584	\$ 5,482,669	\$ 5,001,756	\$ 4,822,845
Net utility plant	\$ 5,685,197	\$ 5,093,238	\$ 4,523,650	\$ 4,131,971	\$ 3,891,085
Construction expenditures and property additions	\$ 778,748	\$ 682,869	\$ 560,448	\$ 457,120	\$ 438,289
Cash flow, net from:					
Operating activities	\$ 367,794	\$ 382,502	\$ 309,216	\$ 507,224	\$ 497,500
Investing activities	(759,842)	(669,392)	(557,384)	(446,238)	(416,727)
Financing activities	400,575	280,906	267,090	(63,339)	(74,159)
Net change in cash	\$ 8,527	\$ (5,984)	\$ 18,922	\$ (2,353)	\$ 6,614
Total throughput (thousands of therms):					
Residential	818,390	697,011	674,271	684,626	655,421
Small commercial	333,221	305,342	297,677	294,525	285,118
Large commercial	99,326	92,548	92,561	90,949	92,284
Industrial/Other	42,551	37,753	33,816	30,275	30,973
Transportation	1,007,989	1,050,551	974,407	970,561	1,035,707
Total throughput	2,301,477	2,183,205	2,072,732	2,070,936	2,099,503
Weighted average cost of gas purchased (\$/therm)	\$ 0.36	\$ 0.31	\$ 0.44	\$ 0.37	\$ 0.44
Customers at year end	2,081,000	2,047,000	2,015,000	1,984,000	1,956,000
Employees at year end	2,295	2,312	2,285	2,247	2,219
Customer to employee ratio	907	886	882	883	881
Degree days – actual	1,917	1,531	1,478	1,613	1,512
Degree days – ten-year average	1,701	1,694	1,733	1,771	1,792

(1) Periods prior to 2018 depict revised Operations and maintenance expense and Operating income for the reclassification of non-service cost components of net periodic benefit costs in Southwest's Consolidated Statements of Income due to the adoption of ASU 2017-07. Net income overall was not impacted. Refer to **Note 11 - Pension and Other Postretirement Benefits** in the notes to the consolidated financial statements in this Annual Report to Stockholders for further information relating to the adoption of this update.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

About Southwest Gas Holdings, Inc.

Southwest Gas Holdings, Inc. is a holding company that owns all of the shares of common stock of Southwest Gas Corporation (“Southwest” or the “natural gas operations” segment), and all of the shares of common stock of Centuri Group, Inc. (“Centuri” or the “utility infrastructure services” segment). Southwest Gas Holdings, Inc. and its subsidiaries are collectively referred to as the “Company.” At the annual meeting of stockholders of Southwest Gas Holdings, Inc., held on May 2, 2019, stockholders voted to approve changing the state of incorporation of Southwest Gas Holdings, Inc. from California to Delaware. The reincorporation was effective in September 2019. Southwest continues to be incorporated in the state of California.

Southwest is engaged in the business of purchasing, distributing, and transporting natural gas for customers in portions of Arizona, Nevada, and California. Southwest is the largest distributor of natural gas 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 of natural gas in Nevada, serving the majority of southern Nevada, including the Las Vegas metropolitan area, and portions of northern Nevada. In addition, Southwest distributes and transports natural gas for customers in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

As of December 31, 2019, Southwest had 2,081,000 residential, commercial, industrial, and other natural gas customers, of which 1,109,000 customers were located in Arizona, 774,000 in Nevada, and 198,000 in California. Residential and commercial customers represented over 99% of the total customer base. During 2019, 53% of operating margin (gas operating revenues less the net cost of gas sold) was earned in Arizona, 36% in Nevada, and 11% in California. During this same period, Southwest earned 84% of its operating margin from residential and small commercial customers, 3% from other sales customers, and 13% from transportation customers. These general patterns are expected to remain materially consistent for the foreseeable future.

Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Operating margin is a financial measure defined by management as gas operating revenues less the net cost of gas sold. However, operating margin is not specifically defined in accounting principles generally accepted in the United States (“U.S. GAAP”). Thus, operating margin is considered a non-GAAP measure. Management uses this financial measure because natural gas operating revenues include the net cost of gas sold, which is a tracked cost that is passed through to customers without markup under purchased gas adjustment (“PGA”) mechanisms. Fluctuations in the net cost of gas sold impact revenues on a dollar-for-dollar basis, but do not impact operating margin or operating income. Therefore, management believes operating margin provides investors and other interested parties with useful and relevant information to analyze Southwest’s financial performance in a rate-regulated environment. The principal factors affecting changes in operating margin are general rate relief (including impacts of infrastructure trackers) and customer growth. Refer to the Summary Operating Results table for a reconciliation of revenues to operating margin.

The demand for natural gas is seasonal, with greater demand in the colder winter months and decreased demand in the warmer summer months. All of Southwest’s service territories have decoupled rate structures (alternative revenue programs), which are designed to eliminate the direct link between volumetric sales and revenue, thereby mitigating the impacts of weather variability and conservation on operating margin, allowing Southwest to pursue energy efficiency initiatives.

Centuri is a comprehensive utility infrastructure services enterprise dedicated to delivering a diverse array of solutions to North America’s gas and electric providers. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions. Centuri operates in 54 primary locations across 40 states and provinces in the United States (“U.S.”) and Canada. In November 2017, Centuri expanded its operations in the northeast region of the U.S. through the acquisition of New England Utility Constructors, Inc. (“Neuco”), and again in November 2018, in the southeast region of the U.S., through the acquisition of an 80% interest in Linetec Services, LLC (“Linetec”). Centuri operates in the U.S. primarily as NPL, Neuco, and Linetec, and in Canada primarily as NPL Canada. Information surrounding the Linetec acquisition can be found in **Note 17 - Business Acquisitions** in this annual report.

Utility infrastructure services activity can be significantly impacted by changes in weather, general and local economic conditions (including the housing market), interest rates, employment levels, job growth, infrastructure replacement programs of utilities, and local and federal regulation (including tax rates and incentives). During the past few years, utilities have implemented or modified system integrity management programs to enhance safety pursuant to federal and state mandates. These programs have resulted in a significant increase in multi-year utility system replacement programs throughout the U.S. Generally, Centuri revenues are lowest during the first quarter of the year due to less favorable winter weather working conditions. Revenues typically improve as more favorable weather conditions occur during the summer and fall months. In certain circumstances, such as with large bid contracts (especially those of a longer duration), or unit-price contracts with revenue caps, results may be impacted by differences between costs incurred and those anticipated when the work was originally bid. Work awarded, or failing to be awarded, by individual large customers can impact operating results.

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations and are covered in greater detail in later sections of management's discussion and analysis. As reflected in the table below, the natural gas operations segment accounted for an average of 78% of consolidated net income over the past three years.

Summary Operating Results

(In thousands, except per share amounts)	Year ended December 31,		
	2019	2018	2017
Contribution to net income			
Natural gas operations	\$ 163,171	\$ 138,842	\$ 156,818
Utility infrastructure services	52,404	44,977	38,360
Corporate and administrative	(1,639)	(1,542)	(1,337)
Net income	<u>\$ 213,936</u>	<u>\$ 182,277</u>	<u>\$ 193,841</u>
Weighted average common shares	<u>54,245</u>	<u>49,419</u>	<u>47,965</u>
Basic earnings per share			
Consolidated	<u>\$ 3.94</u>	<u>\$ 3.69</u>	<u>\$ 4.04</u>
Natural Gas Operations			
Reconciliation of Revenue to Operating Margin (Non-GAAP measure)			
Gas operating revenues	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308
Less: Net cost of gas sold	385,164	419,388	355,045
Operating margin	<u>\$ 983,775</u>	<u>\$ 938,340</u>	<u>\$ 947,263</u>

2019 Overview

Consolidated results for 2019 increased compared to 2018. Basic earnings per share were \$3.94 in 2019 compared to \$3.69 in 2018.

Natural gas operations highlights include the following:

- Added 34,000 net new customers (1.7% growth rate) in 2019
- Operating margin increased \$45 million, or 4.8% between 2019 and 2018
- Company-Owned Life Insurance ("COLI") income increased \$21 million between years
- Filed general rate cases in Arizona, California, and with the FERC
- Nevada general rate case filing anticipated in late February 2020

Utility infrastructure services highlights include the following:

- Record revenues of \$1.75 billion were experienced in 2019, an increase of \$229 million, or 15%, compared to 2018
- Utility infrastructure services expenses increased \$186 million, or 13%, compared to 2018
- 2019 record results include a full year of Linetec, which was acquired in November 2018

Southwest Gas Holdings highlights include the following:

- Completed reincorporation from California to Delaware
- Increased the number of authorized shares of common stock available for issuance from 60,000,000 to 120,000,000

Results of Natural Gas Operations

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Gas operating revenues	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308
Net cost of gas sold	385,164	419,388	355,045
Operating margin	983,775	938,340	947,263
Operations and maintenance expense	422,174	404,813	391,321
Depreciation and amortization	215,620	191,816	201,922
Taxes other than income taxes	62,328	59,898	57,946
Operating income	283,653	281,813	296,074
Other income (deductions)	9,517	(17,240)	(6,388)
Net interest deductions	95,026	81,740	69,733
Income before income taxes	198,144	182,833	219,953
Income tax expense	34,973	43,991	63,135
Contribution to consolidated net income	\$ 163,171	\$ 138,842	\$ 156,818

2019 vs. 2018

Contribution to consolidated net income from natural gas operations increased \$24 million between 2019 and 2018. The increase was primarily due to higher operating margin and an improvement in Other income (deductions), as well as lower Income tax expense. The increase was offset by increases in Operations and maintenance expense, Depreciation and amortization, and Net interest deductions.

Operating margin increased \$45 million between years. Customer growth provided \$11 million, and combined rate relief, primarily in Nevada and California, provided \$12 million of incremental operating margin. The remaining increase primarily resulted from the net recovery of regulatory program balances (with a \$12.2 million partial offsetting impact in amortization expense), in addition to margin from customers outside the decoupling mechanisms and other miscellaneous revenues. The net increase in regulatory program recoveries included California public purpose and cap and trade programs (net of climate credits returned), as well as recoveries from Nevada renewable energy and infrastructure replacement programs, offset by the return of amounts for conservation and energy efficiency programs.

Operations and maintenance expense increased \$17 million, or 4%, between 2019 and 2018 primarily due to general cost increases and higher legal claims experience. Higher expenditures for pipeline integrity management and damage prevention programs, as well as incremental information technology costs also contributed to the increase.

Depreciation and amortization expense increased \$23.8 million, or 12%, between years. Amortization related to regulatory account recoveries, as noted above, increased \$12.2 million between years. Depreciation and amortization of gas plant increased \$11.6 million primarily due to a \$586 million, or 9%, increase in average gas plant in service for the current year as compared to the prior year. The increase in gas plant was attributable to pipeline capacity reinforcement work, franchise requirements, scheduled and accelerated pipe replacement activities, and new infrastructure.

Taxes other than income taxes increased \$2 million, or 4%, between 2019 and 2018 primarily due to higher property taxes associated with net plant additions, and due to the Nevada Commerce Tax, as well as California franchise taxes.

Other income (deductions) improved \$27 million between 2019 and 2018 primarily due to an increase in income from COLI policies. The current year reflects a \$17.4 million increase in COLI policy cash surrender values and recognized death benefits, while 2018 reflected a \$3.2 million COLI-related loss. The cash surrender values of these policies fluctuate based on the value of the underlying investments, which increased substantially during 2019, similar to the broader stock market. Additionally, non-service-related components of employee pension and postretirement benefit cost, included in this category, decreased \$6 million between years.

Net interest deductions increased \$13.3 million between 2019 and 2018, primarily due to higher interest from the issuance of \$300 million of Senior Notes in May 2019. Higher interest rates and average outstanding balances under Southwest's credit facility and increased carrying costs on PGA balances in Arizona also contributed to the increase.

The reduction in income taxes and effective tax rates between 2019 and 2018 was partially due to lower state income taxes (due to apportionment changes) and \$2.3 million in amortization of excess deferred income taxes following U.S. tax reform. The significant amount of COLI earnings in 2019 (noted above), which are recognized without tax consequence, also favorably impacted the effective rate.

2018 vs. 2017

The contribution to consolidated net income from natural gas operations decreased \$18 million between 2018 and 2017. The decrease was primarily due to higher Operations and maintenance expense and Net interest deductions and higher Other deductions, partially offset by rate relief and lower Depreciation and amortization.

Operating margin decreased \$9 million due to a \$20 million decrease in customer rates following the enactment of U.S. tax reform in December 2017. The decline in applicable U.S. income tax rates also significantly reduced income tax expense. Operating margin was favorably impacted by rate relief in the Arizona and California jurisdictions, which collectively provided \$6 million in operating margin, and by customer growth, which contributed \$11 million in operating margin. The remaining decline of \$6 million relates to the combined impacts of reduced surcharge recoveries between periods (largely offset in Depreciation and amortization), including Nevada Conservation and Energy Efficiency (“CEE”) programs and a California Climate Credit returned to customers, and to the variability in other miscellaneous revenues, margin from gas infrastructure replacement programs, and customers outside the decoupling mechanisms.

Operations and maintenance expense increased \$13.5 million, or 3%, between 2018 and 2017 primarily due to the impacts of an \$8 million increase in pension and other employee benefit costs. In addition, expenditures for pipeline integrity management and damage prevention programs were \$3.5 million higher in 2018. Residual differences primarily relate to higher costs associated with information technology and lower legal claims experience under insurance programs.

Depreciation and amortization expense decreased \$10.1 million, or 5%, primarily due to reduced depreciation rates in Arizona, a result of the April 2017 Arizona general rate case decision, and the impacts of surcharge recoveries for regulatory mechanisms, as discussed above. Partially offsetting the decline was increased depreciation expense associated with a \$466 million, or 7%, increase in average gas plant in service between 2018 and 2017. The increase in gas plant was attributable to pipeline capacity reinforcement work, franchise requirements, scheduled and accelerated pipe replacement activities, and new infrastructure.

Taxes other than income taxes increased \$2 million, or 3%, between 2018 and 2017 primarily due to higher property taxes associated with plant additions.

Other income (deductions) declined \$10.9 million between 2018 and 2017. The 2018 period reflected a \$3.2 million decrease in COLI policy cash surrender values net of recognized death benefits, while 2017 reflected \$10.3 million of COLI-related income. Partially offsetting the decrease between periods was an increase in interest income of \$3.2 million, including amounts related to the Gas Infrastructure Replacement (“GIR”) mechanism in Nevada. Additionally, the non-service-related components of employee pension and postretirement benefit costs were \$1.6 million higher in 2018 than in 2017.

Net interest deductions increased \$12 million between 2018 and 2017, primarily due to higher interest associated with credit facility borrowings and the issuance of \$300 million of Senior Notes in March 2018.

Income tax fluctuations between 2018 and 2017 resulted primarily from the December 2017 enactment of U.S. tax reform noted earlier, which among other things, reduced the corporate federal income tax rate from 35% to 21%, and from the impact of fluctuations in pre-tax earnings between periods.

Results of Utility Infrastructure Services

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Utility infrastructure services revenues	\$ 1,750,978	\$ 1,522,285	\$ 1,246,484
Operating expenses:			
Utility infrastructure services expenses	1,573,227	1,387,689	1,148,963
Depreciation and amortization	87,617	57,396	49,029
Operating income	90,134	77,200	48,492
Other income (deductions)	466	(238)	345
Net interest deductions	14,086	14,190	7,986
Income before income taxes	76,514	62,772	40,851
Income tax expense	21,399	18,420	2,390
Net income	55,115	44,352	38,461
Net income (loss) attributable to noncontrolling interests	2,711	(625)	101
Contribution to consolidated net income attributable to Centuri	\$ 52,404	\$ 44,977	\$ 38,360

Centuri acquired Linetec and Neuco in November 2018 and 2017, respectively. Results above reflect the inclusion of each of these entities following their respective acquisition dates.

2019 vs. 2018

Contribution to consolidated net income from utility infrastructure services increased \$7.4 million in 2019 compared to 2018. Results were positively impacted by a full year of activities from Linetec and increased volume under certain blanket contracts, notably in Canada. These increases were partially offset by higher depreciation and amortization resulting from the Linetec acquisition.

Utility infrastructure services revenue increased \$228.7 million, or 15%, primarily due to a full year of Linetec operations in 2019 (\$236.1 million) compared to revenue recognized in the previous year following the November 2018 acquisition date (\$14.1 million). Continued growth with customers under existing master service and bid agreements also contributed to the increase in revenue overall. Partially offsetting these increases were decreased revenues from certain non-routine projects, including customer-requested support in 2018 during an employment strike, and emergency response situations, in addition to a multi-year water pipe project replacement project that expired in July 2019 and was not renewed. The prior year also included the settlement of an earlier contract dispute related to that project (\$9 million). Implementation of new regulatory requirements for operating locations within certain eastern states in the U.S. resulted in lower revenues during the year as Centuri works with customers to adopt the new requirements. During the past several years, utility infrastructure services segment efforts have been focused on obtaining utility system replacement work under both blanket contracts and incremental bid projects. For both 2019 and 2018, revenues from replacement work were approximately 60% of total revenues, as governmental safety-related programs have resulted in many utilities undertaking multi-year infrastructure replacement projects in recent years. Revenue for this segment includes contracts with Southwest totaling \$158.7 million in 2019 and \$135.9 million in 2018. Centuri accounts for services provided to Southwest at contractual prices.

Utility infrastructure services expenses increased \$185.5 million, or 13%, between 2019 and 2018 largely due to incremental expenses related to Linetec of \$172.1 million. Included in total Utility infrastructure services expenses were general and administrative (“G&A”) costs, which decreased \$5.6 million in 2019 when compared to 2018, due primarily to the impact of deal costs from the acquisition of Linetec during 2018 (\$6.9 million), which did not recur. The 2019 period includes higher operating costs overall, associated with growth of the business. The new regulatory requirements noted above for operating locations in certain states in the eastern U.S. also resulted in productivity inefficiencies during 2019. Furthermore, efforts to complete an industrial construction project in Canada resulted in additional costs of approximately \$8 million during the current year as a result of delays in commissioning the project. Gains on sale of equipment (reflected as an offset to Utility infrastructure services expenses) were approximately \$5.5 million and \$1.7 million in 2019 and 2018, respectively.

Depreciation and amortization expense increased \$30.2 million between 2019 and 2018, primarily due to \$25 million of incremental depreciation and amortization of finite-lived tangible and intangible assets related to the Linetec acquisition. Additional equipment purchased to support the growing volume of work being performed also contributed to the overall increase.

The decrease in net interest deductions was due primarily to lower incremental borrowing rates associated with outstanding borrowings under the \$590 million secured revolving credit and term loan facility. See **Note 8 - Debt** to the consolidated financial statements.

Income tax expense increased \$3 million between 2019 and 2018, primarily due to an increase in pre-tax earnings.

2018 vs. 2017

Contribution to consolidated net income from utility infrastructure services increased \$6.6 million in 2018 compared to 2017. Results were positively impacted by a full year of activities from Neuco in 2018 (following the acquisition in November 2017), and due to improved productivity on certain contracts compared to 2017, in addition to incremental non-routine projects with some customers. These increases were partially offset by higher interest charges and increased amortization due to the Neuco and Linetec acquisitions. Additionally, net income in both years reflected benefits from U.S. tax reform; 2018 reflects lower tax rates on a higher level of pre-tax earnings and 2017 reflects the remeasurement of Centuri's deferred tax liabilities following the enactment date.

Utility infrastructure services revenue increased \$275.8 million, or 22%, between 2018 and 2017, primarily attributable to a full year of Neuco operations (related revenue of \$147.9 million in 2018 compared to \$17.2 million in 2017) and revenues from Linetec (\$14.1 million, as indicated earlier) following the November 2018 acquisition date, in addition to continued growth from existing customers under master service and bid agreements. Revenue was favorably impacted in 2018 from certain non-routine projects (including the strike-related support and emergency response situations indicated above), and from the settlement of the previous contract dispute on the water pipe replacement project. Revenues in 2017 were negatively impacted by a temporary work stoppage with a customer, which began in the first quarter of 2017, with work resuming during the second quarter of the same year. Similar to 2018, revenue from replacement work in 2017 approximated 60% of total revenue. Utility infrastructure services revenue from contracts with Southwest totaled \$97 million in 2017 compared to the \$135.9 million noted earlier during 2018.

Utility infrastructure services expenses increased \$238.7 million, or 21%, between 2018 and 2017, including additional gas pipe replacement work and higher labor-related operating expenses to support business growth. There were a total of \$133 million of expenses, exclusive of deal costs, during 2018 related to Neuco (\$120.3 million) and Linetec (\$12.7 million), as compared to \$14.4 million in 2017 from Neuco activity following the acquisition date. Costs incurred overall during 2018 reflect changes that were implemented to align with the increased size and complexity of the business, while expenses in 2017 were negatively impacted by the water pipe replacement project noted above. Included in total Utility infrastructure services expense are G&A costs, which increased \$23.8 million in 2018 when compared to 2017, including \$6.9 million (2018) and \$2.6 million (2017) of deal costs from the acquisitions of Linetec and Neuco, respectively. Gains on sale of equipment (reflected as an offset to Utility infrastructure services expenses) were approximately \$1.7 million and \$4.2 million for 2018 and 2017, respectively.

Depreciation and amortization expense increased \$8.4 million between 2018 and 2017, primarily due to \$3.5 million of incremental amortization of finite-lived intangible assets related to the Neuco and Linetec acquisitions. Additional equipment purchased to support the growing volume of work being performed resulted in higher depreciation expense, partially offset by a \$6.9 million reduction in depreciation associated with the extension of the estimated useful lives of certain depreciable equipment.

The increase in net interest deductions was due primarily to interest expense and amortization of debt issuance costs associated with incremental borrowings under the \$590 million secured revolving credit and term loan facility (following the Neuco and Linetec acquisitions).

Income tax expense increased \$16 million between 2018 and 2017, primarily due to the net benefit of \$12 million recognized in 2017 from the remeasurement of Centuri's deferred tax liabilities following the enactment of U.S. tax reform in December 2017 and due to an increase in taxable earnings during 2018. These increases were partially offset by lower U.S. income tax rates applied to taxable earnings in 2018.

Rates and Regulatory Proceedings

Southwest is subject to the regulation of the Arizona Corporation Commission (the "ACC"), the Public Utilities Commission of Nevada (the "PUCN"), the California Public Utilities Commission (the "CPUC"), and the Federal Energy Regulatory Commission (the "FERC").

General Rate Relief and Rate Design

Rates charged to customers vary according to customer class and rate jurisdiction and are set by the individual state and federal regulatory commissions that govern Southwest's service territories. Southwest makes periodic filings for rate adjustments as the costs of providing service (including the cost of natural gas purchased) changes, and as additional investments in new or replacement pipeline and related facilities are made. Rates are intended to provide for recovery of all commission-approved costs and provide a reasonable return on investment. The mix of fixed and variable components in rates assigned to various customer classes (rate design) can significantly impact the operating margin actually realized by Southwest. Management has worked 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. Such rate structures were in place in all of Southwest's operating areas during all periods for which results of natural gas operations are disclosed above.

Arizona Jurisdiction

Arizona General Rate Case. On May 1, 2019, Southwest filed a general rate case application requesting to increase revenue by approximately \$57 million to update the cost of service to reflect recent U.S. tax reform changes, including the return of excess deferred income taxes to customers, and to reflect capital investments of approximately \$670 million, including certain post-test year additions, such as those related to the previously authorized southern Arizona LNG facility. At the time of the filing, Southwest estimated the return of approximately \$20.6 million of excess deferred income taxes. Since then, the Company finalized its 2018 tax return, which allowed it to calculate the actual amortization amount of \$5.7 million based on the prescribed methodology for calculating the excess amount to be returned to customers. The difference of \$14.9 million would result in an increase in revenue and income tax expense, thereby having no impact to earnings. The requested increase included a proposed 10.3% return on equity (“ROE”) relative to a capital structure of 51.1% equity. It also includes the retention of a fully decoupled rate design, other previously approved regulatory mechanisms, and a new infrastructure tracking mechanism for specific plastic pipe. The request also includes a proposal for a renewable natural gas program that authorizes Southwest to purchase renewable natural gas for its customers and to recover the cost as part of its PGA mechanism. In October 2019, Southwest filed an amendment to its application, updating the actual amount of amortization for excess deferred income taxes, as well as additional post-test year plant to include an additional \$124.5 million of investments associated with its COYL and VSP programs, both of which are discussed further below. The amendment increased the deficiency by \$36 million, to \$93 million. A hearing in this matter is scheduled for April 2020.

Delivery Charge Adjustment. The annual rate adjustment for the Delivery Charge Adjustment (“DCA”) mechanism is filed each April, which along with other reporting requirements, contemplates a rate to recover the over- or under-collected margin tracker amounts based on the balance at the end of the preceding calendar year. The DCA rate adjustment filed in April 2018 reflected the December 31, 2017 balance of approximately \$40 million; in February 2019, Southwest updated its request to instead include the balance at December 31, 2018 of \$73 million. The ACC approved a surcharge to recover approximately \$69 million, the difference of which relates to a one-time modification to reflect benefits attributable to the impact of recent landmark U.S. tax reform on the balance existing at the enactment date of such reform. The updated rate became effective in May 2019.

Tax Reform. In February 2018, the ACC directed all Arizona utilities to address tax savings from the enactment of U.S. tax reform beginning January 1, 2018, through one of various means. In April 2018, Southwest filed an application with the ACC, requesting approval for a tax refund process or, in the alternative, the authority to file a general rate case to reflect the impacts of tax reform. Ultimately, Southwest was instructed to refund customers \$20 million annually, as compared to rate levels established in the previously concluded general rate case, until cost-of-service rates are updated in association with the current general rate case. The current method to return this amount (in advance of the conclusion of the current general rate proceeding) is through a per-therm surcredit. Southwest has been tracking monthly differences between amounts expected to be returned and amounts actually returned to customers during 2018 and 2019, which resulted in an asset balance of \$869,000 as of December 31, 2019. See related discussion above with regard to tax reform impacts on the DCA.

Liquefied Natural Gas (“LNG”) Facility. In January 2014, Southwest filed an application with the ACC seeking preapproval to construct, operate, and maintain a 233,000 dekatherm LNG facility in southern Arizona. This facility is intended to enhance service reliability and flexibility related to natural gas deliveries in the southern Arizona area by providing a local storage option, to be operated by Southwest and connected directly to its distribution system. A modified ACC order in December 2016, following land purchase and bid solicitation for the engineering, procurement, and construction of the facility, granted approval for construction and deferral of costs not to exceed \$80 million. Construction began during the third quarter of 2017; final construction and operational testing has been completed and the facility was placed in service in December 2019. Southwest has incurred approximately \$73 million in capital expenditures toward the project (including land acquisition costs).

Customer-Owned Yard Line (“COYL”) Program. Southwest received approval, in connection with its 2010 Arizona general rate case, to implement a program to conduct leak surveys, and if leaks were present, to replace and relocate service lines and meters for Arizona customers whose meters were set off from the customer’s home, representing a non-traditional configuration. “Phase II” of the COYL program included the replacement of non-leaking COYLs. The surcharge is designed to collect the annual revenue requirement as the program progresses. In the annual filing made in February 2019, Southwest requested to increase its surcharge to recover a revenue requirement of \$6.7 million (an increase of \$3.2 million) related to the revenue requirement associated with \$26.6 million in capital projects completed in 2018. The ACC ultimately issued an Order in October 2019 authorizing Southwest to retain the existing annual surcharge of \$3.5 million and indicating it would review the program as part of the pending general rate case. Southwest also proposed to have the ACC review an estimated \$21.1 million of 2019 COYL capital projects, and if authorized, to also render a decision regarding cost recovery as part of the pending rate case.

Vintage Steel Pipe Program (“VSP”). Southwest received approval, in connection with its 2016 Arizona general rate case, to implement a VSP replacement program. Southwest currently has approximately 6,000 miles of pre-1970s vintage steel pipe in Arizona. As part of the program, Southwest proposed to start replacing the pipe on an accelerated basis and to recover the costs through an annual surcharge filing that is made in February of each year. The surcharge is designed to be revised annually as the program progresses to collect the annual revenue requirement associated with the capital expenditures. In the February 2019 VSP

filing, Southwest requested to increase its surcharge revenue by \$9.5 million (to \$11.9 million) related to 2018 expenditures; Southwest replaced approximately 119 miles of vintage steel pipe during 2018 totaling approximately \$100 million. The ACC issued an Order in October 2019 authorizing Southwest to retain the current annual surcharge of \$2.4 million and indicating it would review the program as part of the pending rate general case. Southwest also proposed to have the ACC review an estimated \$103.4 million of 2019 VSP capital projects, and if authorized, to also render a decision regarding cost recovery as part of the pending rate case.

Customer Data Modernization Initiative. Southwest is embarking on an initiative to replace its customer service system and its gas transaction system, each of which is utilized to support all Southwest service territories. Combined, these undertakings are referred to as the Customer Data Modernization Initiative (the “CDMI”). In March 2019, Southwest filed an application with the ACC seeking an accounting order which, if approved, would authorize Southwest to track and defer all costs associated with the CDMI to mitigate adverse financial impacts associated with this multi-year initiative. The total cost for the CDMI is estimated at \$174 million, approximately \$96 million of which would be allocable to the Arizona rate jurisdiction. The initiative is currently expected to be completed in the first half of 2021. A hearing in this matter is scheduled for April 2020.

California Jurisdiction

California General Rate Case. Southwest’s existing rates became effective June 2014 and included a Post-Test Year (“PTY”) Ratemaking Mechanism, which allowed for attrition increases of 2.75% annually for 2015 through 2018, after which new rates from a subsequent rate case cycle would have been expected to be in effect. In December 2016, Southwest filed to modify the earlier (2014) general rate case decision to extend the rate case cycle by two years, and received CPUC approval in June 2017, including extension of the annual 2.75% PTY attrition adjustments for 2019 and 2020.

On August 30, 2019, Southwest filed the previously deferred California general rate case, based on a test year of 2021, seeking authority to increase rates in its California rate jurisdictions. The proposed combined revenue increase of \$12.8 million is net of a \$10.9 million revenue reduction associated with changes from recent U.S. tax reform, which includes the amortization of \$9.8 million (approximately \$2 million annually over five years) associated with the difference in authorized income tax expense and actual incurred income tax expense for the years 2019 and 2020 (as discussed below), which when returned will impact cash flows but is not expected to have an impact on earnings overall. The overall revenue request also includes \$1.6 million of excess accumulated deferred income taxes that are proposed to be returned to customers each year until the amount is reset as part of a future rate case. Southwest’s proposal includes a return on common equity of 10.5%, relative to a 53% equity ratio; continuation of the post-test year margin adjustments of 2.75%; implementation of various safety-related programs, including a targeted pipe replacement program and a meter protection program (which includes a combination of measures, such as snow sheds, excess flow valves, upgraded meter set piping, and upgraded Encoder Receiver Transmitter protocol); as well as an expansion of the COYL replacement program. The case will be processed throughout 2020, with rates requested to be effective in January 2021.

Tax Reform. In its 2017 decision approving Southwest’s request to extend the filing date of its next general rate case, the CPUC also directed Southwest to track income tax expense resulting from mandatory or elective changes in tax law, procedure, or policy. The purpose is to identify differences between Southwest’s authorized income tax expense and its actual incurred income tax expense, the result of which would be reviewed in Southwest’s next general rate case. Through the fourth quarter of 2019, Southwest reflected \$4.9 million as a reserve for amounts attributable to the impact of U.S. tax reform on the ratemaking revenue requirement, and plans to reserve a similar amount in 2020, as discussed above.

Attrition Filing. In November 2019, Southwest made its latest annual PTY attrition filing, requesting annual revenue increases of \$2.06 million in southern California, \$556,000 in northern California, and \$278,000 for South Lake Tahoe. This filing was approved in December 2019 and rates were made effective in January 2020. At the same time, rates were updated to recover the regulatory asset associated with the revenue decoupling mechanism, or margin tracker.

Greenhouse Gas (“GHG”) Compliance. California Assembly Bill Number 32 and the regulations promulgated by the California Air Resources Board, require Southwest, as a covered entity, to comply with all applicable requirements associated with California GHG emissions reporting and the California Cap and Trade Program. The CPUC issued a decision in March 2018 adopting an allocation methodology to distribute the net revenues or costs for years 2015-2017 beginning in the second quarter of 2018. Southwest began amortizing its then existing net cost balance over a 12-month period with recovery rates effective July 2018 for all applicable rate schedules. In addition, for years 2019-2020, the decision adopted an allocation methodology to distribute the revenue proceeds through a California Climate Credit to active residential customers in April of each year, following initial required credits in October 2018. GHG compliance costs recovered through rates (including transportation customer rates) have no impact on earnings.

Renewable Natural Gas. In February 2019, Southwest filed an application that, among other provisions, seeks to formally allow the inclusion of renewable natural gas (or biomethane) as a potential component of Southwest’s gas supply portfolio through the Biomethane Gas Program (“BGP”). This proposal is designed to further the goals of the California Global Warming Solutions Act of 2006, the California Low Carbon Fuel Standard, Senate Bills 1383 and 1440, as well as current or future legislative or regulatory

efforts to reduce greenhouse gas emissions. Implementation of the BGP addresses cost recovery as part of Southwest's existing Gas Cost Incentive Mechanism related to the purchase or sale of biomethane. The CPUC's decision related to this application is expected by the second quarter 2020.

Customer Data Modernization Initiative. On April 26, 2019, Southwest filed an application with the CPUC seeking authority to establish a two-way, interest bearing balancing account to record costs associated with the CDMI to mitigate adverse financial impacts associated with this multi-year project. Approximately \$19 million of the total cost for the CDMI would be allocable to the California rate jurisdiction. Southwest filed a separate request to establish a memorandum account while the CPUC considers its application request to establish a two-way balancing account. Effective October 2019, the CPUC granted Southwest's memorandum account request, which will allow Southwest to track costs, including operations and maintenance costs and capital-related costs, such as depreciation, taxes, and return associated with California's portion of the CDMI. The balance tracked will be recorded in a two-way balancing account, if approved. In January 2020, Southwest and the Public Advocates Office reached a settlement agreement to adopt Southwest's Application for Authority to Implement the CDMI. The proposed decision approving the settlement agreement is expected in the second quarter 2020.

Nevada Jurisdiction

Nevada General Rate Case. Southwest plans to file a general rate case application with the PUCN by the end of February 2020. The filing will request a statewide overall general rate increase of approximately \$38 million. The request will seek an ROE of 10% relative to a proposed capital structure of 50% equity and will provide for a \$35 million revenue increase in southern Nevada and \$3 million in northern Nevada. The request will also include the recovery of previously excluded costs attributable to several software applications and the continuation of the General Revenues Adjustment ("GRA"). Management anticipates a decision from this request in late 2020.

In December 2018, the PUCN issued a rate case decision in the previous general rate case application, which authorized an ROE of 9.25% relative to the Company's proposed capital structure of 49.66% equity applicable to both southern and northern Nevada and provided for an overall revenue increase of \$9.5 million in southern Nevada and a revenue decrease in northern Nevada of \$2 million. New rates associated with the PUCN's decision became effective in January 2019.

The rate relief was lower than the amounts requested due to several factors, including the 9.25% granted return on equity, as opposed to a requested 10.3%, and the exclusion from rates of costs attributable to several software applications, albeit allowing Southwest to request recovery in its next general rate case filing, which Southwest will be requesting in the February 2020 application. In response to the PUCN's decision, management filed a Petition for Reconsideration of several rate case issues in January 2019. The PUCN Staff also filed a Petition for Reconsideration requesting several technical clarifications on the rate case decision with respect to how to calculate the intended results of the decision. The PUCN, in turn, issued a decision regarding both petitions in February 2019 that modified certain parts of the original order, but granted no further rate relief. The modified final decision resulted in a revenue increase of \$9.2 million in southern Nevada and a revenue decrease in northern Nevada of \$2.1 million. The decision included a reduction in depreciation expense of \$800,000 and overall, resulted in a net increase in revenues of \$7.1 million and an increase in operating income of \$7.9 million. The modified rates became effective March 2019. Management decided to seek judicial review of the PUCN's rate order, which was considered in January 2020. The District Court Judge deferred to the PUCN's original findings. Management intends to file an appeal with the Nevada Supreme Court, the resolution of which would likely take 12-24 months. Southwest expects consideration of the appeal to occur concurrently with the proceedings of the 2020 general rate case that is expected to be filed in February 2020.

General Revenues Adjustment. As part of the Annual Rate Adjustment ("ARA") filing in 2018, the PUCN authorized rate adjustments associated with the GRA, a margin decoupling mechanism, to recover \$5.6 million from customers during 2019. The continuation of the GRA was affirmed as part of the December 2018 rate case decision, and is again being requested as part of Southwest's general rate case application in February 2020. In June 2019, Southwest made its 2019 ARA filing in which it requested to update the GRA to reflect the current balances in both southern and northern Nevada. This most recent filing provided for a decrease of approximately \$8 million for an over-collected balance in southern Nevada and an increase of approximately \$2 million in northern Nevada. The proposed changes were approved, with rates effective January 2020. While there is no impact to net income overall from adjustments to recovery rates associated with the related regulatory balances, operating cash flows are impacted by such changes.

Infrastructure Replacement Mechanisms. In 2014, the PUCN approved final rules for the GIR mechanism which defers and recovers certain costs associated with accelerated replacement of qualifying infrastructure that would not otherwise currently provide incremental revenues. Associated with the replacement of various types of pipe infrastructure under the mechanism (Early Vintage Plastic Pipe, COYL, and VSP), the related regulations provide Southwest with the opportunity to file a GIR "Advance Application" annually, generally in May, to seek preapproval of qualifying replacement projects.

Furthermore, a GIR Rate Application is generally filed each October to reset the GIR recovery surcharge rate related to previously approved and completed projects, with new rates typically becoming effective each January. On October 1, 2019, Southwest filed

a Rate Application to reset the recovery surcharge to include cumulative deferrals through August 31, 2019. This surcharge rate became effective in February 1, 2020 and is expected to result in a reduction in annual margin of approximately \$5.3 million in southern Nevada and no incremental margin in northern Nevada.

Conservation and Energy Efficiency (“CEE”). The PUCN allows deferral (and later recovery) of approved conservation and energy efficiency costs, recovery rates for which are adjusted in association with ARA filings. As part of the 2018 ARA filing, Southwest requested and received modified rates, effective January 2019, designed to return \$4.1 million in southern Nevada and \$58,000 in northern Nevada. Changes in annualized margin from this mechanism are not impactful to net income overall, as such changes result in similar amounts recognized in amortization expense. In June 2019, Southwest made its 2019 ARA filing, which proposed annualized margin increases of \$3.2 million and \$880,000 in southern and northern Nevada, respectively. Southwest recently entered into a stipulation and agreement to modify these amounts to \$6.2 million and \$1.1 million in southern and northern Nevada, respectively, which reflects the recovery of a related but separate program balance to be rolled into customer rates with the same effective date. The modification was approved and related rates became effective January 2020.

Expansion and Economic Development Legislation. In January 2016, final regulations were approved by the PUCN associated with legislation (“SB 151”) previously introduced and signed into law in Nevada. The legislation authorized natural gas utilities to expand their infrastructure to provide service to unserved and underserved areas in Nevada.

In November 2017, Southwest filed for preapproval of a project to extend service to Mesquite, Nevada, in accordance with the SB 151 regulations. Ultimately, the PUCN issued an order approving Southwest’s proposal to expand natural gas infrastructure to Mesquite. The order approved a capital investment of approximately \$28 million and the construction of approximately 37 miles of distribution pipeline (including the approach main). A volumetric rate was implemented October 1, 2019, to recover the cost and is applicable to all southern Nevada customers (including new customers in Mesquite). The annual revenue requirement associated with the project is \$2.8 million. Following preliminary design, Southwest began serving certain customers with an approved virtual pipeline network in February 2019, providing temporary natural gas supply using portions of the approved distribution system and compressed natural gas. It is estimated that permitting and construction of the approach main to bring the permanent supply to Mesquite and construction of the remaining approved distribution system will be placed in service in the first quarter of 2021.

In June 2019, Southwest filed for preapproval to construct the infrastructure necessary to expand natural gas service to Spring Creek, Nevada, and to implement a cost recovery methodology to timely recover the associated revenue requirement consistent with the SB 151 regulations. Expansion to the Spring Creek area near Elko, Nevada, consists of a high-pressure approach main and associated regulator stations, an interior backbone, and the extension of the distribution system from the interior backbone system. This area has a population of approximately 16,500, with approximately 20% of the existing 5,000 potential customers expressing an intent to request natural gas service, if available. The total capital investment is estimated to be \$61.9 million. A stipulation in this matter was reached with the parties and approved by the PUCN in December 2019. The stipulation largely accepted Southwest’s proposal with modifications reflected in the rate recovery allocations split amongst northern Nevada, Elko, and Spring Creek expansion customers.

Customer Data Modernization Initiative. In March 2019, Southwest filed a request seeking authority to establish a regulatory asset to defer the revenue requirement related to the CDMI to mitigate the financial attrition associated with this multi-year project. Of the total estimated cost of the CDMI, approximately \$59 million would be allocable to the Nevada rate jurisdictions. A hearing on this matter was held in August 2019 and the PUCN issued its decision in September 2019, denying Southwest’s request for regulatory asset treatment, finding that a general rate case is the most appropriate venue to address such costs. In response to the PUCN’s decision, Southwest filed a Petition for Reconsideration in October 2019, which was denied. Southwest will begin to address operations and maintenance expense impacts pertaining to the CDMI in its planned general rate case filing in February 2020. The software itself is expected to be moved to production in 2021.

FERC Jurisdiction

General Rate Case. Paiute Pipeline Company (“Paiute”), a wholly owned subsidiary of Southwest, filed a general rate case with the FERC in May 2019. The filing fulfilled an obligation from the settlement agreement reached in the 2014 Paiute general rate case. The application requested an increase in operating revenues of approximately \$7 million, and included the continuation of term-differentiated rates, which would compensate Paiute with a higher return if shippers desire to maintain shorter-lived contracts and, therefore, would incent shippers to sign longer term service agreements.

In January 2020, Paiute reached an agreement in principle with the FERC Staff and intervenors to settle its general rate case. In addition to continuing term-differentiated rates that encourage longer-term contracts with its shippers, the settlement, which is being drafted by the parties for filing with the FERC in March 2020, would result in a revenue reduction of approximately \$700,000. The agreement-in-principle is based on a 9.90% pre-tax rate of return. Also, as part of this agreement, Paiute agreed not to file a rate case prior to January 1, 2022, but no later than May 31, 2025.

In January 2020, Paiute requested, and was granted, the authority to place the settlement rates into effect on an interim basis effective February 2020. These rates will remain in effect, subject to final FERC approval, which is expected in the second half of 2020. Should the proceeding not be resolved by the agreement in principle, or if the settlement proceeds as a contested settlement, Paiute is authorized to receive the difference between the interim settlement rates and the separately filed motion rates from affected customers, retroactive to February 2020.

PGA Filings

The rate schedules in all of Southwest’s service territories contain provisions that permit adjustments to rates as the cost of purchased gas changes. These deferred energy provisions and purchased gas adjustment clauses are collectively referred to as “PGA” clauses. Differences between gas costs recovered from customers and amounts paid for gas by Southwest result in over- or under-collections. As of December 31, 2019, over-collections in Arizona and California resulted in a liability of approximately \$60.8 million and under-collections in both southern and northern Nevada resulted in an asset of \$44.4 million on the Company’s and Southwest’s balance sheets. The balance in Arizona includes approximately \$24 million remaining to be returned to Arizona customers that originated with a \$49 million refund received by Southwest during the third quarter of 2018 related to a rate case settlement associated with El Paso Natural Gas, L.L.C. (“El Paso”). Effective May 2019, the ACC approved the return of the El Paso rate case settlement dollars as a special per-therm PGA credit. The rate case settlement dollars are expected to be fully returned to customers by the second quarter of 2020.

The following table presents Southwest’s outstanding PGA balances receivable/(payable) at the end of its two most recent fiscal years:

(Thousands of dollars)	December 31,	
	2019	2018
Arizona	\$ (59,259)	\$ (72,878)
Northern Nevada	11,894	4,928
Southern Nevada	32,518	(5,951)
California	(1,496)	(933)
	<u>\$ (16,343)</u>	<u>\$ (74,834)</u>

Arizona PGA Filings. In Arizona, Southwest calculates the change in the gas cost component of customer rates monthly (to allow for timely refunds to/recoveries from customers), utilizing a rolling twelve-month average. During 2019, the Gas Cost Balancing Account remained a surcredit in order to refund the over-collected balance throughout the year.

California Gas Cost Filings. In California, a monthly gas cost adjustment based on forecasted monthly prices is utilized. Monthly adjustments modeled in this fashion provide the timeliest recovery of gas costs in any Southwest jurisdiction.

Nevada ARA Application. In November 2019, Southwest filed to adjust its quarterly Deferred Energy Account Adjustment rate, which is based upon a twelve-month rolling average, in addition to requesting adjusted Base Tariff Energy rates, both of which were approved effective January 2020. These new rates are intended to collect the outstanding balances over a twelve-month period.

Gas Price Volatility Mitigation

Regulators in Southwest’s service territories have historically encouraged Southwest to take proactive steps to mitigate price volatility to its customers. To accomplish this, Southwest has periodically entered into fixed-price term contracts and swaps under its collective volatility mitigation programs for a portion (up to 25% in the Arizona and California jurisdictions) of its annual normal weather supply needs. For the 2019/2020 heating season, contracts contained in the fixed-price portion of the supply portfolio ranged from approximately \$1.15 to approximately \$2.85 per dekatherm. For periods beyond October 2020, Southwest currently does not plan to make any fixed-price term purchases or enter into swap agreements for the Arizona jurisdiction; however, Southwest will continue to enter into fixed-price purchases for the California jurisdiction. Southwest does not currently enter into swaps or fixed-price purchases for its Nevada territories. Southwest makes natural gas purchases, not covered by fixed-price contracts, under variable-price contracts with firm quantities, and on the spot market. The contract price for these contracts is either determined at the beginning of each month to reflect that month’s published first-of-month index price or at daily market prices based on a published daily price index. In each case, the index price is not published or known until the purchase period begins. See also **Note 13 - Derivatives**.

Pipeline Safety Regulation

In October 2019, the Pipeline and Hazardous Materials Safety Administration (“PHMSA”) issued final rules that amend the federal pipeline safety regulations applicable to gas transmission pipelines (effective July 2020) and revise PHMSA’s authority to issue emergency orders (effective December 2019). These rules cover, among other requirements, procedures related to reconfirming

maximum allowable operating pressure of gas transmission pipelines in certain circumstances, assessing pipeline integrity, and the authority of PHMSA to issue emergency orders to address imminent hazards caused by unsafe conditions or practices. These rules may require Southwest to incur additional costs of compliance.

Southwest continues to monitor changing pipeline safety legislation and participates, to the extent possible, in providing public comments and working with industry associations, such as the American Gas Association, in shaping regulatory language associated with these new mandates and reporting requirements. Additionally, Southwest works with its state and federal commissions to develop customer rates that are responsive to incremental costs of compliance. However, due to the timing of when rates are implemented in response to new requirements, and as additional rules are developed, compliance requirements could impact expenses and the timing and amount of capital expenditures.

Capital Resources and Liquidity

Over the past three years, cash on hand and cash flows from operations have provided a substantial portion of cash used in investing activities (primarily construction expenditures and property additions). In recent years, the Company has accelerated pipe replacement activities to fortify system integrity and reliability, notably in association with gas infrastructure replacement programs. This accelerated activity has necessitated the issuance of both debt and equity securities to supplement cash flows from operations. The Company's capitalization strategy is to maintain an appropriate balance of equity and debt to maintain strong investment-grade credit ratings, which should minimize interest costs.

Cash Flows

Southwest Gas Holdings, Inc.:

Operating Cash Flows. Cash flows provided by consolidated operating activities decreased \$28 million between 2019 and 2018. The decline in operating cash flows was attributable to impacts related to deferred purchased gas costs, including the special surcredit instituted to refund the El Paso rate case refund amounts noted above, offset by increases in net income, benefits from depreciation, and the impacts of working capital components overall, including the collection of nearly half of the \$69 million in DCA recovery dollars from the surcharge set in place in May 2019, in addition to other regulatory surcharges.

Investing Cash Flows. Cash used in consolidated investing activities declined \$48 million in 2019 as compared to 2018. The prior year included Centuri's acquisition of its 80% interest in Linetec. Of the \$303.4 million purchase price, \$47.6 million was paid in 2019 (see **Note 17 - Business Acquisitions**). Offsetting the decline from the acquisition were increased construction expenditures in the natural gas operations segment, including scheduled and accelerated replacement activity, in addition to incremental equipment purchases at Centuri to support growth in its operations and the related volume of work.

Financing Cash Flows. Net cash provided by consolidated financing activities decreased \$97 million in 2019 as compared to 2018. The prior year reflects net proceeds from the issuance by the Company of approximately \$84 million under its Equity Shelf Program and \$260 million in common stock in an underwritten public offering (primarily to facilitate the Linetec acquisition by Centuri), compared to current year issuances of common stock of approximately \$158 million to support capital expenditures and provide funds for general corporate purposes. Refer to **Note 7 - Common Stock**. Additionally, in 2019, the Company and Southwest borrowed \$17 million and \$42 million, respectively, under their short-term credit facilities, compared to prior year payments of \$63 million made to repay short-term borrowings under such credit facilities. Dividends paid increased in 2019 as compared to 2018 as a result of an increase in the quarterly dividend rate and an increase in the number of shares outstanding.

The Company received approximately \$146 million in stock proceeds during 2019 under its Equity Shelf Programs and issued approximately 147,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan, from which it raised approximately \$12 million.

Southwest Gas Corporation:

Operating Cash Flows. Cash flows provided by operating activities decreased \$15 million between 2019 and 2018. The decrease in operating cash flows was attributable to impacts related to deferred purchased gas costs noted above, offset by an increase in net income, benefits from depreciation, and impacts of working capital components overall, including regulatory surcharge collections.

Investing Cash Flows. Cash used in investing activities increased \$90 million in 2019 as compared to 2018. The change was primarily due to increases in construction expenditures.

Financing Cash Flows. Net cash provided by financing activities increased \$120 million in 2019 as compared to 2018. The increase was primarily due to proceeds from short-term borrowings under Southwest's revolving credit facility (\$42 million) as compared to repayments of borrowings in the previous year (\$39 million), in addition to an increase in capital contributions from Southwest Gas Holdings, Inc.

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and utility infrastructure services segments. Each business activity is generally responsible for securing its own financing sources. However, the holding company may raise funds through stock issuance or other external financing sources in support of each business segment, as discussed above and in **Note 7 - Common Stock**.

2019 Construction Expenditures

During the three-year period ended December 31, 2019, total gas plant in service increased from \$6.2 billion to \$7.8 billion, or at an average annual rate of 8%. Replacement, reinforcement, and franchise work was a substantial portion of the plant increase. To a lesser extent, customer growth impacted expenditures as Southwest set approximately 98,000 meters during the three-year period.

During 2019, construction expenditures for the natural gas operations segment were \$779 million. The majority of these expenditures represented costs associated with scheduled and accelerated replacement of existing transmission, distribution, and general plant to fortify system integrity and reliability. Cash flows from operating activities of Southwest were \$368 million and provided approximately 42% of construction expenditures and dividend requirements of the natural gas operations segment. Other funding was provided by cash on hand, external financing activities (including the \$300 million notes issued in May 2019), capital contributed by Southwest Gas Holdings, Inc., and, as needed, existing credit facilities.

2019 Financing Activity

Net proceeds under the collective Equity Shelf Programs for 2019 were \$146 million, comprised of an aggregate of 1,756,774 shares of Southwest Gas Holdings, Inc. common stock sold in the open market at a weighted average price of \$83.91 per share, net of \$1,474,103 in agent commissions. These net proceeds were contributed to Southwest by the holding company. As of December 31, 2019, the Company had up to \$176 million of common stock available for sale under the still effective program. See **Note 7 - Common Stock** for more information.

Gas Segment Three-Year Construction Expenditures, Debt Maturities, and Financing

Management estimates natural gas segment construction expenditures during the three-year period ending December 31, 2022 will be approximately \$2.1 billion. Of this amount, approximately \$650 million to \$700 million is expected to be incurred in 2020. Southwest plans to continue to request regulatory support to accelerate projects that improve system flexibility and reliability (including replacement of early vintage plastic and steel pipe) or to expand, where relevant, to unserved or underserved areas. Southwest may expand existing, or initiate new, programs. Significant replacement activities are expected to continue well beyond the next few years. During the three-year period, cash flows from operating activities of Southwest are expected to provide approximately 50% of the funding for gas operations total construction expenditures and dividend requirements. From a debt maturity perspective, Southwest has \$125 million of 4.45% Notes due in December 2020. There were no debt maturities in 2019. Any additional cash requirements, including construction-related and any paydown or refinancing of debt, are expected to be provided by existing credit facilities, equity contributions from the Company, and/or other external financing sources. The timing, types, and amounts of any additional external financings will be dependent on a number of factors, including the cost of gas purchases, conditions in the capital markets, timing and amounts of rate relief, and amounts and timing related to excess accumulated deferred income taxes returned to customers, as well as growth levels in Southwest's service areas and earnings. External financings could include the issuance of debt securities, bank and other short-term borrowings, and other forms of financing.

Liquidity

Several general factors (some of which are out of the control of the Company) that could significantly affect liquidity in future years include: variability of natural gas prices, changes in the ratemaking policies of regulatory commissions, regulatory lag, customer growth in the natural gas segment's service territories, the ability to access and obtain capital from external sources, interest rates, changes in income tax laws, pension funding requirements, inflation, and the level of earnings. Natural gas prices and related gas cost recovery rates, as well as plant investment, have historically had the most significant impact on liquidity.

On an interim basis, Southwest 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 December 31, 2019, the combined balance in the PGA accounts totaled an over-collection of \$16.3 million. See **PGA Filings** for more information.

In March 2017, the Company entered into a credit facility with a borrowing capacity of \$100 million that expires in March 2022. The Company utilizes this facility for short-term financing needs. The maximum amount outstanding during 2019 occurred during the fourth quarter and was \$17 million, which was the same amount outstanding on this facility at December 31, 2019. There were no amounts outstanding on the credit facility during each of the first, second, and third quarters.

Southwest has a \$400 million credit facility, which expires in March 2022. Southwest designates \$150 million of the facility for long-term borrowing needs and the remaining \$250 million for working capital purposes. The maximum amount outstanding during 2019 occurred during the second quarter and was \$366 million (\$150 million outstanding on the long-term portion of the

credit facility, including \$50 million on the commercial paper program, in addition to \$216 million outstanding on the short-term portion). As of December 31, 2019, \$150 million was outstanding on the long-term portion of the credit facility (including \$50 million on the commercial paper program), and \$194 million was outstanding on the short-term portion. The maximum amount outstanding on the long-term portion of the credit facility (including the commercial paper program) during each quarter end of 2019 was \$150 million; the maximum outstanding on the short-term portion for each of the first, second, third, and fourth quarters was \$188 million, \$216 million, \$30 million, and \$195 million, respectively. The credit facility can be used as necessary to meet liquidity requirements, including temporarily financing under-collected PGA balances, if any, meeting the refund needs of over-collected balances, or temporarily funding capital expenditures. The credit facility has been adequate for Southwest's working capital needs outside of funds raised through operations and other types of external financing.

Southwest has a \$50 million commercial paper program as noted above. Any issuance under the commercial paper program is supported by the revolving credit facility and, therefore, does not represent additional borrowing capacity. Any borrowing under the commercial paper program is designated as long-term debt. Interest rates for the commercial paper program are calculated at the then current commercial paper rate. At December 31, 2019, \$50 million was outstanding on the commercial paper program.

In May 2019, Southwest issued \$300 million in 4.15% Senior Notes at a discount of 0.051%. The Notes will mature in June 2049. A portion of the proceeds were used to repay amounts then outstanding under Southwest's credit facility and commercial paper program.

In May 2019, the Company filed with the SEC an automatic shelf registration statement for the offer and sale of up to \$300 million of common stock from time to time in at-the-market offerings under the prospectus included therein in accordance with the Sales Agency Agreement, dated May 8, 2019, between the Company and BNY Mellon Capital Markets, LLC (the Equity Shelf Program discussed above). The Company issued \$124 million under this multi-year program during the second, third, and fourth quarters of 2019. Net proceeds from the sales of shares of common stock under the Equity Shelf Program are intended 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 served by Southwest.

In March 2017, the Company filed an automatic shelf registration statement with the SEC for the offer and sale of up to \$150 million of common stock from time to time in at-the-market offerings under the related prospectus and sales agency agreement. The Company issued the full capacity of this equity program, concluding during the quarter ended March 31, 2019. See **Note 7 - Common Stock**.

In November 2018, in association with the acquisition of Linetec (refer to **Note 17 - Business Acquisitions**), Centuri amended its secured revolving credit and term loan facility, increasing the borrowing capacity from \$450 million to \$590 million. The line of credit portion of the facility increased to \$325 million; amounts borrowed and repaid under the revolving credit facility are available to be re-borrowed. The term loan facility portion has a limit of \$265 million, which was reached in November 2018 after the refinancing of the existing term loan noted above and additional borrowing that occurred under the amended facility. No further borrowing is permitted under the term loan facility. The \$590 million secured revolving credit and term loan facility expires in November 2023. At December 31, 2019, \$245 million was outstanding (after repayments) on the term facility. The maximum amount outstanding on the credit facility during 2019 was \$352 million, which occurred in the third quarter, at which point \$253 million was outstanding on the term loan facility. As of December 31, 2019, there was \$60 million outstanding and approximately \$244 million, net of outstanding letters of credit, was available to be borrowed on the Centuri secured revolving credit facility.

It is currently anticipated that LIBOR may be discontinued as a benchmark or reference rate after 2021. As of December 31, 2019, \$17 million of borrowings outstanding for the holding company under its credit facility, \$294 million of Southwest's outstanding borrowings under its credit facility (other than from its commercial paper program), and \$188 million of Centuri's outstanding borrowings under its credit facility have interest rates with reference to LIBOR and maturity dates that extend beyond 2021. The outstanding amounts reflect approximately 13% of Southwest's total debt and 19% of total debt (including current maturities) for the Company overall. In order to mitigate the impact of the discontinuation on the Company's financial condition and results of operations, Southwest and Centuri will continue to monitor developments with respect to alternative rates and work with lenders to determine the appropriate alternative reference rate for variable rate indebtedness. However, at this time the Company and Southwest can provide no assurances as to the impact a LIBOR discontinuation will have on their financial condition or results of operations. Any alternative rate may be less predictable or less attractive than LIBOR.

Credit Ratings

Credit ratings apply to debt securities such as bonds, notes, and other debt instruments and do not apply to equity securities such as common stock. Borrowing costs and the ability to raise funds are directly impacted by the credit ratings of the Company. Credit ratings issued by nationally recognized ratings agencies (Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services ("Standard & Poor's"), and Fitch Ratings ("Fitch")) provide a method for determining the creditworthiness of an issuer. Credit ratings are important because long-term debt constitutes a significant portion of total capitalization. These credit ratings are a factor considered by lenders when determining the cost of current and future debt for both Southwest and Southwest Gas Holdings, Inc. (i.e., generally the better the rating, the lower the cost to borrow funds). The current unsecured long-term debt ratings of both companies are all considered investment grade.

	Moody's (1)	Standard & Poor's (2)	Fitch (3)
Southwest Gas Holdings, Inc.:			
Issuer rating	Baa1	BBB+	BBB+
Outlook	Negative	Negative	Stable
Last reaffirmed	January 2020	November 2019	June 2019
Southwest Gas Corporation:			
Senior unsecured long-term debt	A3	A-	A
Outlook	Negative	Negative	Stable
Last reaffirmed	January 2020	November 2019	June 2019

(1) Moody's debt ratings range from Aaa (highest rating possible) to C (lowest quality, usually in default). Moody's applies an A rating to obligations which are considered upper-medium grade obligations with low credit risk. A numerical modifier of 1 (high end of the category) through 3 (low end of the category) is included with the A to indicate the approximate rank of a company within the range. The Moody's outlook of "negative" was updated in January 2020 for both Southwest and the Company in consideration of steadily increasing debt in relation to cash flow growth.

(2) Standard & Poor's ("S&P") debt ratings range from AAA (highest rating possible) to D (obligation is in default). The ratings from 'AA' to 'CCC' may be modified by the addition of a plus "+" or minus "-" sign to show relative standing within the major rating categories.

(3) Fitch debt ratings range from AAA (highest credit quality) to D (defaulted debt obligation). The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

A credit rating is not a recommendation to buy, sell, or hold a debt security, but is intended to provide an estimation of the relative level of credit risk of debt securities, and is subject to change or withdrawal at any time by the rating agency. The foregoing credit ratings are subject to change at any time at the discretion of the applicable ratings agency. Numerous factors, including many that are not within management's control, are considered by the ratings agencies in connection with the assigning of credit ratings.

None of Southwest's debt instruments have credit triggers or other clauses that result in default if these bond ratings are lowered by rating agencies. Interest and fees on certain debt instruments are subject to adjustment depending on Southwest's bond ratings. Certain debt instruments are subject to a leverage ratio cap and the 6.1% Notes due 2041 are also subject to a minimum net worth requirement. At December 31, 2019, Southwest was in compliance with all of its covenants. Under the most restrictive of the financial covenants, approximately \$2.4 billion in additional debt could be issued and the leverage ratio requirement would still be met. At least \$1.5 billion of cushion in equity relating to the minimum net worth requirement exists at December 31, 2019. No specific limitations as to dividends exist under the collective covenants. None of the debt instruments contain material adverse change clauses.

At December 31, 2019, Southwest Gas Holdings, Inc. was also in compliance with all of its credit facility covenants. Interest and fees on the credit facility are subject to adjustment depending on its credit ratings. The credit facility is subject to a leverage ratio cap. No specific limitations as to dividends exist under the collective covenants. The credit facility does not contain a material adverse change clause.

Certain Centuri debt instruments have leverage ratio caps and fixed charge ratio coverage requirements. At December 31, 2019, Centuri was in compliance with all of its covenants. Under the most restrictive of the covenants, Centuri could issue over \$184 million in additional debt and meet the leverage ratio requirement. Centuri has at least \$53 million of cushion relating to the minimum fixed charge ratio coverage requirement. Centuri's revolving credit and term loan facility is secured by underlying assets of the utility infrastructure services segment. Centuri also has restrictions on how much it could give to the Company in cash dividends, which is limited to 60% of its rolling twelve-month consolidated net income.

Bonus Depreciation

In 2017, with the enactment of U.S. tax reform, the bonus depreciation deduction percentage changed from 50% to 100% for “qualified property” placed in service after September 27, 2017 and before 2023. The bonus depreciation tax deduction phases out starting in 2023, by 20% for each of the five following years. Qualified property excludes public utility property. The Company estimates bonus depreciation will defer the payment of approximately \$22 million (none of which relates to utility operations) of federal income taxes for 2020.

Inflation

Inflation can impact results of operations for Southwest and Centuri. Labor, employee benefits, natural gas, professional services, and construction costs are the categories most significantly impacted by inflation. Changes to the cost of gas are generally recovered through PGA mechanisms and do not significantly impact net earnings. Labor, employee benefits, and professional services are components of the cost of service, and gas infrastructure costs are the primary component of utility rate base. In order to recover increased costs, and earn a fair return on rate base, general rate cases are filed by Southwest, when deemed necessary, for review and approval by regulatory authorities. Regulatory lag, that is, the time between the date increased costs are incurred and the time such increases are recovered through the ratemaking process, can impact earnings. See **Rates and Regulatory Proceedings** for a discussion of recent rate case proceedings.

Off-Balance Sheet Arrangements

All debt is recorded on the balance sheet. Long-term operating and finance leases are described in **Note 2 - Utility Plant and Leases** and included in the Contractual Obligations table below.

Contractual Obligations

The table below summarizes the Company’s contractual obligations at December 31, 2019:

(Millions of dollars)	Payments due by period				
	Total	2020	2021-2022	2023-2024	Thereafter
Contractual obligations:					
Long-term debt, including current maturities	\$ 2,464	\$ 164	\$ 495	\$ 241	\$ 1,564
Short-term debt	211	211	—	—	—
Interest on long-term debt	1,422	95	169	144	1,014
Pipeline capacity/storage	476	76	115	79	206
Gas purchase obligations	72	62	5	2	3
Operating leases	102	13	22	17	50
Finance leases	14	14	—	—	—
Other commitments	112	64	44	4	—
Derivatives	11	11	—	—	—
Total	\$ 4,884	\$ 710	\$ 850	\$ 487	\$ 2,837

In the table above, operating leases represent multi-year obligations for buildings, land, equipment and vehicles. Not included in the table above are \$5.1 million in lease payments for leases not yet commenced. Other commitments include obligations relating to the CDMI, as described in **Rates and Regulatory Proceedings**. Gas purchase obligations include fixed-price and variable-rate gas purchase contracts. Variable-rate contracts reflect minimum contractual obligations with estimation in pricing based on market price information. Actual future variable-rate purchase commitments may vary depending on market prices at the time of delivery and these values may change significantly from their estimated amounts. Certain other variable-rate contracts allow for variability in quantities for which associated demand charges are included in the gas purchase obligations line above, based on the maximum daily quantities available under the contracts. Excluded from the table are renewable natural gas purchase obligations in which the commencement dates are not specifically determinable and the volumes and contract prices are inestimable until certain contract provisions are met. Also excluded from the table is \$4.7 million of purchase consideration related to the Linetec acquisition in the form of liabilities incurred that remained unpaid as of December 31, 2019.

Southwest has pipeline capacity/storage contracts for firm transportation service, both on a short- and long-term basis, with several companies for all of its service territories, some with terms extending to 2044. Southwest also has interruptible contracts in place that allow additional capacity to be acquired should an unforeseen need arise. Costs associated with these pipeline capacity contracts are a component of the cost of gas sold and are recovered from customers primarily through the PGA mechanisms. Included in the pipeline capacity payments shown in the above table, are payments associated with storage that Southwest has contracted for in southern California.

Debt obligations in the table above consist of scheduled principal and interest payments over the life of the debt. Interest rates in effect at December 31, 2019 on variable rate long-term debt were assumed to remain in effect in the future periods disclosed in the table. Interest on long-term debt includes future interest payments of \$1.39 billion for Southwest and \$35.7 million for Centuri.

Pension: Estimated funding for pension and other postretirement benefits during calendar year 2020 is \$105 million (including a supplemental discretionary contribution of \$50 million) and is not included in the table above. As changes to the discount rate have a significant impact to the pension obligation and estimated future costs, and as the discount rate at the end of 2019 was at a low not experienced in many decades, Southwest, through a contribution from the Company, elected to make a discretionary supplemental contribution to the pension plan of \$50 million in January 2020. This additional contribution was made to mitigate the expected increase in pension costs and provide for additional returns on the increased level of plan assets available for benefits. Fundings for future years beyond 2020 are not currently known.

Recently Issued Accounting Standards Updates

The FASB recently issued Accounting Standards Updates related to measurement of credit losses, accounting for implementation costs in a cloud computing arrangement, disclosure requirements for defined benefit plans and fair value measurement, simplifying the test for goodwill impairment, and accounting for income taxes. See **Note 1 - Background, Organization, and Summary of Significant Accounting Policies** for more information regarding these Accounting Standards Updates and their potential impact on financial position, results of operations, and disclosures.

Application of Critical Accounting Policies

A critical accounting policy is one which is very important to the portrayal of the financial condition and results of a company, and requires the most difficult, subjective, or complex judgments of management. The need to make estimates about the effect of items that are uncertain is what makes these judgments difficult, subjective, and/or complex. Management makes subjective judgments about the accounting and regulatory treatment of many items and bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained, and as the operating environment changes. While management may make many estimates and judgments, many would not be materially altered, or provide a material impact to the financial statements taken as a whole, if different estimates, or means of estimation were employed. The following are accounting policies that are deemed critical to the financial statements. For more information regarding significant accounting policies, see notes to the consolidated financial statements.

Regulatory Accounting

Natural gas operations are subject to the regulation of the ACC, the PUCN, the CPUC, and the FERC. The accounting policies of the Company and Southwest conform to U.S. GAAP applicable to rate-regulated entities and reflect the effects of the ratemaking process. As such, the Company and Southwest are allowed to defer, as regulatory assets, costs that otherwise would be expensed, if it is probable that future recovery from customers will occur. Companies are also permitted to recognize, as regulatory assets, amounts associated with various revenue decoupling mechanisms, as long as the requirements of alternative revenue programs permitted under U.S. GAAP continue to be met. Management reviews the regulatory assets to assess their ultimate recoverability within the approved regulatory guidelines. If rate recovery is no longer probable, due to competition or the actions of regulators, write-off of the related regulatory asset (which would be recognized as current-period expense) is required. Regulatory liabilities are recorded if it is probable that revenues will be reduced for amounts that will be credited to customers through the ratemaking process. The timing and inclusion of costs in rates is often delayed (regulatory lag) and results in a reduction of current-period earnings. Refer to **Note 5 - Regulatory Assets and Liabilities**.

Accrued Utility Revenues

Revenues related to the sale and/or delivery of natural gas are generally recorded when natural gas is delivered to customers. However, the determination of natural gas sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, operating margin associated with natural gas service that has been provided but not yet billed is accrued. This accrued utility revenue is estimated each month based primarily on applicable rates, number of customers, rate structure, analyses reflecting significant historical trends, seasonality, and experience. The interplay of these assumptions can impact the variability of the accrued utility revenue estimates. All Southwest rate jurisdictions have decoupled rate structures, limiting variability due to extreme weather conditions.

Accounting for Income Taxes

The Company is subject to income taxes in the U.S. and Canada. Income tax calculations require estimates due to known future tax rate changes, book to tax differences, and uncertainty with respect to regulatory treatment of certain property items. The asset and liability method of accounting is utilized for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Regulatory tax assets and liabilities are recorded to the

extent management believes they will be recoverable from or refunded to customers in future rates. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. With the enactment of recent U.S. tax reform, management undertook processes to remeasure these balances. Management regularly assesses financial statement tax provisions to identify any change in the regulatory treatment or tax-related estimates, assumptions, or enacted tax rates that could have a material impact on cash flows, financial position, and/or results of operations.

Accounting for Pensions and Other Postretirement Benefits

Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees. In addition, there is a separate unfunded supplemental retirement plan which is limited to officers. Pension obligations and costs for these plans are affected by the amount and timing of cash contributions to the plans, the return on plan assets, discount rates, and by employee demographics, including age, compensation, and length of service. Changes made to the provisions of the plans may also impact current and future pension costs. Actuarial formulas are used in the determination of pension obligations and costs and are affected by actual plan experience and assumptions about future experience. Key actuarial assumptions include the expected return on plan assets, the discount rate used in determining the projected benefit obligation and pension costs, and the assumed rate of increase in employee compensation. Relatively small changes in these assumptions (particularly the discount rate) may significantly affect pension obligations and costs for these plans. For example, a change of 0.25% in the discount rate assumption would change the pension plan projected benefit obligation by approximately \$47 million and future pension expense by \$4 million. A change of 0.25% in the employee compensation assumption would change the pension obligation by approximately \$8 million and expense by \$2 million. A 0.25% change in the expected asset return assumption would change pension expense by approximately \$2 million (but has no impact on the pension obligation).

At December 31, 2019, the discount rate was 3.50%, a decrease from the 4.50% rate used at December 31, 2018. The methodology utilized to determine the discount rate was consistent with prior years. The weighted-average rate of compensation escalation remained at 3.25%. The asset return assumption of 6.75% to be used for 2020 expense was reduced from the 7.00% rate utilized for 2019. Pension costs for 2020 are estimated to increase approximately \$13.6 million as compared to that experienced in 2019. Future years' expense level movements (up or down) will continue to be greatly influenced by long-term interest rates, asset returns, and funding levels.

Goodwill

Goodwill is assessed for impairment annually as of October, or more frequently, if events or changes in circumstances indicate an impairment may have occurred before that time. As permitted under accounting guidance on testing goodwill for impairment, we perform either a qualitative assessment or a quantitative assessment of each of our reporting units based on management's judgment. Adjustment of values would only occur if conditions of impairment were deemed to be permanent. With respect to our qualitative assessments, we consider events and circumstances specific to us, such as macroeconomic conditions, industry and market considerations, cost factors, and overall financial performance, when evaluating whether it is more likely than not that the fair values of our reporting units are less than their respective carrying amounts. The assumptions we use in our analysis are subject to uncertainty, and declines in the future performance of our reporting units and changing business conditions could result in the recognition of impairment charges, which could be significant. The Company's reporting units are the same as its segments (natural gas operations and utility infrastructure services) for purposes of impairment evaluation. Almost all of the goodwill on the Company's consolidated balance sheet pertains to the utility infrastructure services segment.

Business Combinations

In accordance with U.S. GAAP, the assets acquired and liabilities assumed in an acquired business are recorded at their estimated fair values on the date of acquisition. The amount of goodwill initially recognized in a business combination is based on the excess of the purchase price of the acquired company over the fair value of the other assets acquired and liabilities assumed. The determination of these fair values requires management to make significant estimates and assumptions. For example, assumptions with respect to the timing and amount of future revenues and expenses associated with an asset are used to determine its fair value but the actual timing and amount may differ materially resulting in impairment of the asset's recorded value. In some cases, the Company engages independent third-party valuation firms to assist in determining the fair values of acquired assets and liabilities assumed. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows of the acquired business, trademarks, customer relationships, technology obsolescence, and discount rates. In addition, uncertain tax positions and tax-related valuation allowances assumed in connection with a business combination are initially estimated at the acquisition date. These items are reevaluated quarterly, based upon facts and circumstances that existed at the acquisition date with any adjustments to the preliminary estimates being recorded to goodwill, provided that the Company is within the twelve-month measurement period allowed by authoritative guidance. Subsequent to the measurement period or the final determination of the estimated value of the tax allowance or contingency, whichever comes first, changes to these uncertain tax positions and tax-related valuation allowances will affect the provision for income taxes in the Consolidated Statements of Income, and could have a material impact on the Company's results of operations and financial position. Goodwill is evaluated for impairment no less frequently

than annually. The fair value assigned to the intangible assets acquired and liabilities assumed, and the determination of goodwill associated with the Linetec acquisition, are described in **Note 17 - Business Acquisitions**.

Certifications

The SEC requires the filing of certifications of the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of registrants regarding reporting accuracy, disclosure controls and procedures, and internal control over financial reporting as exhibits to periodic filings. The CEO and CFO certifications for the period ended December 31, 2019 are included as exhibits to the 2019 Annual Report on Form 10-K filed with the SEC.

Forward-Looking Statements

This annual report contains statements which constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“Reform Act”). All statements other than statements of historical fact included or incorporated by reference in this annual report are forward-looking statements, including, without limitation, statements regarding management’s plans, objectives, goals, intentions, projections, strategies, future events or performance, and underlying assumptions. The words “may,” “if,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “continue,” “forecast,” “intend,” “endeavor,” “promote,” “seek,” and similar words and expressions are generally used and intended to identify forward-looking statements. For example, statements regarding operating margin patterns, customer growth, the composition of our customer base, price volatility, seasonal patterns, payment of debt, interest savings, the Company’s COLI strategy, replacement market and new construction market, expected impacts of valuation adjustments associated with the redeemable noncontrolling interest in Linetec, the impact of recent PHMSA rulemaking, the amounts and timing for completion of estimated future construction expenditures, plans to pursue infrastructure programs or programs under SB151 legislation, forecasted operating cash flows and results of operations, net earnings impacts from gas infrastructure replacement surcharges, funding sources of cash requirements, amounts generally expected to be reflected in future period revenues from regulatory rate proceedings, the approved recovery of the Arizona DCA balance, the outcome of judicial review of the recently concluded Nevada rate case, rates and surcharges, PGA, and other rate adjustments, sufficiency of working capital and current credit facilities, bank lending practices, the Company’s views regarding its liquidity position, ability to raise funds and receive external financing capacity and the intent and ability to issue common stock under the Equity Shelf Program, the intent and ability to issue various financing instruments and stock under the universal shelf registration statement, future dividend increases and the Board’s current target dividend payout ratio, pension and postretirement benefits, certain impacts of tax acts, the effect of any rate changes or regulatory proceedings, contract or construction change order negotiations, impacts of accounting standard updates, infrastructure replacement mechanisms and COYL programs, statements regarding future gas prices, gas purchase contracts and derivative financial instruments, recoverability of regulatory assets, the impact of certain legal proceedings, and the timing and results of future rate hearings, including final resolution for recovery of the CDMI in all jurisdictions, and approvals, 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, customer growth rates, conditions in the housing market, the ability to recover costs through the PGA mechanisms or other regulatory assets, the effects of regulation/deregulation, governmental or regulatory policy regarding natural gas or alternative energy, the regulatory support for ongoing infrastructure programs, the timing and amount of rate relief, the timing and methods determined by regulators to refund amounts to customers resulting from U.S. tax reform, changes in rate design, variability in volume of gas or transportation service sold to customers, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, the impact of variable rate indebtedness associated with a discontinuance of LIBOR including in relation to amounts of indebtedness then outstanding, changes in construction expenditures and financing, changes in operations and maintenance expenses, effects of pension expense forecasts, accounting changes and regulatory treatment related thereto, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, results of Centuri bid work, the impact of weather on Centuri’s operations, impacts of changes in value of the redeemable noncontrolling interest if at other than fair value, Centuri utility infrastructure expenses, differences between actual and originally expected outcomes of Centuri bid or other fixed-price construction agreements, outcomes from contract and change order negotiations, ability to successfully procure new work, impacts from work awarded or failing to be awarded from significant customers, the mix of work awarded, the amount of work awarded to Centuri following the lifting of work stoppages or reduction, the result of productivity inefficiencies from regulatory requirements or otherwise, delays in commissioning individual projects, acquisitions, and management’s plans related thereto, competition, our ability to raise capital in external financings, our ability to continue to remain within the ratios and other limits subject to our debt covenants, and ongoing evaluations in regard to goodwill and other intangible assets. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing and operating expenses will continue or cease to continue in future periods. For additional information on the risks associated with the Company’s and Southwest’s businesses, see **Item 1A. Risk Factors** and **Item 7A. Quantitative and Qualitative Disclosures About Market Risk** in this Annual Report on Form 10-K for the year ended December 31, 2019.

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

Common Stock Price and Dividend Information

The principal market on which the common stock of the Company is traded is the New York Stock Exchange and the ticker symbol of the stock is “SWX.” At February 18, 2020, there were 12,032 holders of record of common stock, and the market price of the common stock was \$79.45.

Dividends are payable on the Company’s common stock at the discretion of the Board of Directors (the “Board”). In setting the dividend rate, the Board considers, among other factors, current and expected future earnings levels, our ongoing capital expenditure plans and expected external funding needs, our payout ratio, and our ability to maintain strong credit ratings and liquidity. The quarterly common stock dividend declared was 49.5 cents per share throughout 2017, 52.0 cents per share throughout 2018, and 54.5 cents per share throughout 2019. The Company has paid dividends on its common stock since 1956 and has increased that dividend each year since 2007. In February 2020, the Board elected to increase the quarterly dividend from \$0.545 to \$0.570 per share, representing a 4.6% increase, effective with the June 2020 payment. The Board currently targets a payout ratio of 55% to 65% of consolidated earnings per share.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)

	December 31,	
	2019	2018
ASSETS		
Utility plant:		
Gas plant	\$ 7,813,221	\$ 7,134,239
Less: accumulated depreciation	(2,313,050)	(2,234,029)
Construction work in progress	185,026	193,028
Net utility plant	5,685,197	5,093,238
Other property and investments	784,173	623,551
Current assets:		
Cash and cash equivalents	49,539	85,361
Accounts receivable, net of allowances	474,097	413,926
Accrued utility revenue	79,100	77,200
Income taxes receivable, net	31,751	14,653
Deferred purchased gas costs	44,412	4,928
Prepaid and other current assets	180,957	243,701
Total current assets	859,856	839,769
Noncurrent assets:		
Goodwill	343,023	359,045
Deferred income taxes	856	1,264
Deferred charges and other assets	496,943	440,862
Total noncurrent assets	840,822	801,171
Total assets	\$ 8,170,048	\$ 7,357,729
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$1 par (authorized – 120,000,000 shares; issued and outstanding – 55,007,433 and 53,026,848 shares)	\$ 56,637	\$ 54,656
Additional paid-in capital	1,466,937	1,305,769
Accumulated other comprehensive loss, net	(56,732)	(52,668)
Retained earnings	1,039,072	944,285
Total Southwest Gas Holdings, Inc. equity	2,505,914	2,252,042
Noncontrolling interest	—	(452)
Total equity	2,505,914	2,251,590
Redeemable noncontrolling interest	84,542	81,831
Long-term debt, less current maturities	2,300,482	2,107,258
Total capitalization	4,890,938	4,440,679
Commitments and contingencies (Note 10)		
Current liabilities:		
Current maturities of long-term debt	163,512	33,060
Short-term debt	211,000	152,000
Accounts payable	238,921	248,993
Customer deposits	69,165	67,940
Income taxes payable, net	2,069	1,083
Accrued general taxes	48,160	43,560
Accrued interest	21,329	21,369
Deferred purchased gas costs	60,755	79,762
Other current liabilities	264,950	290,878
Total current liabilities	1,079,861	938,645
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits, net	599,840	529,201
Accumulated removal costs	395,000	383,000
Other deferred credits and other long-term liabilities	1,204,409	1,066,204
Total deferred income taxes and other credits	2,199,249	1,978,405
Total capitalization and liabilities	\$ 8,170,048	\$ 7,357,729

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Operating revenues:			
Gas operating revenues	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308
Utility infrastructure services revenues	1,750,978	1,522,285	1,246,484
Total operating revenues	<u>3,119,917</u>	<u>2,880,013</u>	<u>2,548,792</u>
Operating expenses:			
Net cost of gas sold	385,164	419,388	355,045
Operations and maintenance	424,150	406,393	392,763
Depreciation and amortization	303,237	249,212	250,951
Taxes other than income taxes	62,328	59,898	57,946
Utility infrastructure services expenses	1,573,227	1,387,689	1,148,963
Total operating expenses	<u>2,748,106</u>	<u>2,522,580</u>	<u>2,205,668</u>
Operating income	<u>371,811</u>	<u>357,433</u>	<u>343,124</u>
Other income and (expenses):			
Net interest deductions	(109,226)	(96,671)	(78,064)
Other income (deductions)	10,085	(17,426)	(6,030)
Total other income and (expenses)	<u>(99,141)</u>	<u>(114,097)</u>	<u>(84,094)</u>
Income before income taxes	272,670	243,336	259,030
Income tax expense	56,023	61,684	65,088
Net income	<u>216,647</u>	<u>181,652</u>	<u>193,942</u>
Net income (loss) attributable to noncontrolling interests	2,711	(625)	101
Net income attributable to Southwest Gas Holdings, Inc.	<u>\$ 213,936</u>	<u>\$ 182,277</u>	<u>\$ 193,841</u>
Earnings per share:			
Basic	<u>\$ 3.94</u>	<u>\$ 3.69</u>	<u>\$ 4.04</u>
Diluted	<u>\$ 3.94</u>	<u>\$ 3.68</u>	<u>\$ 4.04</u>
Weighted average shares:			
Basic	54,245	49,419	47,965
Diluted	54,312	49,476	47,991

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Thousands of dollars)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 216,647	\$ 181,652	\$ 193,942
Other comprehensive income (loss), net of tax			
Defined benefit pension plans:			
Net actuarial loss	(54,026)	(15,524)	(32,701)
Amortization of prior service cost	966	1,015	828
Amortization of net actuarial loss	17,766	25,549	15,776
Prior service cost	(1,426)	—	—
Regulatory adjustment	28,077	(6,257)	12,590
Net defined benefit pension plans	(8,643)	4,783	(3,507)
Forward-starting interest rate swaps ("FSIRS"):			
Amounts reclassified into net income	2,541	2,541	2,073
Net forward-starting interest rate swaps	2,541	2,541	2,073
Foreign currency translation adjustments	2,038	(3,010)	1,771
Total other comprehensive income (loss), net of tax	(4,064)	4,314	337
Comprehensive income	212,583	185,966	194,279
Comprehensive income (loss) attributable to noncontrolling interests	2,711	(625)	112
Comprehensive income attributable to Southwest Gas Holdings, Inc.	\$ 209,872	\$ 186,591	\$ 194,167

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended December 31,		
	2019	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	\$ 216,647	\$ 181,652	\$ 193,942
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	303,237	249,212	250,951
Deferred income taxes	54,162	51,041	63,389
Changes in current assets and liabilities:			
Accounts receivable, net of allowances	(54,245)	(15,862)	(40,947)
Accrued utility revenue	(1,900)	1,000	(2,000)
Deferred purchased gas costs	(58,491)	82,574	(95,608)
Accounts payable	(1,865)	11,778	19,961
Accrued taxes	5,243	(11,955)	2,112
Other current assets and liabilities	74,137	(54,073)	(8,203)
Gains on sale of equipment	(5,473)	(1,703)	(4,196)
Changes in undistributed stock compensation	6,896	6,111	10,888
Equity AFUDC	(4,161)	(3,627)	(2,296)
Changes in deferred charges and other assets	(21,051)	(5,738)	(22,269)
Changes in other liabilities and deferred credits	(12,764)	38,446	4,231
Net cash provided by operating activities	<u>500,372</u>	<u>528,856</u>	<u>369,955</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures and property additions	(938,148)	(765,914)	(623,649)
Acquisition of businesses, net of cash acquired	(47,638)	(251,373)	(94,204)
Changes in customer advances	19,001	13,463	323
Other inflows	15,153	4,341	16,645
Net cash used in investing activities	<u>(951,632)</u>	<u>(999,483)</u>	<u>(700,885)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Issuance of common stock, net	157,946	354,402	41,155
Dividends paid	(116,127)	(100,240)	(92,130)
Centuri distribution to redeemable noncontrolling interest	—	—	(204)
Issuance of long-term debt, net	531,596	565,172	407,063
Retirement of long-term debt	(213,789)	(237,758)	(338,969)
Change in credit facility and commercial paper	—	—	145,000
Change in short-term debt	59,000	(62,500)	214,500
Principal payments on finance lease obligations	(212)	(648)	(980)
Redemption of Centuri shares from noncontrolling parties	—	—	(23,000)
Withholding remittance – share-based compensation	(1,858)	(3,110)	(3,176)
Other	(1,276)	(2,744)	(3,074)
Net cash provided by financing activities	<u>415,280</u>	<u>512,574</u>	<u>346,185</u>
Effects of currency translation on cash and cash equivalents	158	(208)	301
Change in cash and cash equivalents	(35,822)	41,739	15,556
Cash and cash equivalents at beginning of period	85,361	43,622	28,066
Cash and cash equivalents at end of period	<u>\$ 49,539</u>	<u>\$ 85,361</u>	<u>\$ 43,622</u>
SUPPLEMENTAL INFORMATION:			
Interest paid, net of amounts capitalized	<u>\$ 102,258</u>	<u>\$ 86,562</u>	<u>\$ 71,943</u>
Income taxes paid (received), net	<u>\$ 2,752</u>	<u>\$ 1,221</u>	<u>\$ 5,673</u>

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except per share amounts)

	Year Ended December 31,		
	2019	2018	2017
Common stock shares			
Beginning balances	53,026	48,090	47,482
Common stock issuances	1,981	4,936	608
Ending balances	55,007	53,026	48,090
Common stock amount			
Beginning balances	\$ 54,656	\$ 49,720	\$ 49,112
Common stock issuances	1,981	4,936	608
Ending balances	56,637	54,656	49,720
Additional paid-in capital			
Beginning balances	1,305,769	955,332	903,123
Common stock issuances	161,620	353,147	52,209
Change in ownership of noncontrolling interest	(452)	(2,710)	—
Ending balances	1,466,937	1,305,769	955,332
Accumulated other comprehensive loss			
Beginning balances	(52,668)	(47,682)	(48,008)
Foreign currency exchange translation adjustment	2,038	(3,010)	1,760
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax	(8,643)	4,783	(3,507)
FSIRS amounts reclassified to net income, net of tax	2,541	2,541	2,073
Reclassification of excess deferred taxes	—	(9,300)	—
Ending balances	(56,732)	(52,668)	(47,682)
Retained earnings			
Beginning balances	944,285	857,398	759,263
Net income	213,936	182,277	193,841
Redemption value adjustments	—	—	(355)
Dividends declared	(119,149)	(104,690)	(95,351)
Reclassification of excess deferred taxes	—	9,300	—
Ending balances	1,039,072	944,285	857,398
Total Southwest Gas Holdings, Inc. equity ending balances	2,505,914	2,252,042	1,814,768
Noncontrolling interest			
Beginning balances	(452)	(2,365)	(2,217)
Net loss	—	(797)	(148)
Change in ownership of noncontrolling interest	452	2,710	—
Ending balances	—	(452)	(2,365)
Total equity ending balances	\$ 2,505,914	\$ 2,251,590	\$ 1,812,403
Dividends declared per common share	\$ 2.18	\$ 2.08	\$ 1.98

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)

	December 31,	
	2019	2018
ASSETS		
Utility plant:		
Gas plant	\$ 7,813,221	\$ 7,134,239
Less: accumulated depreciation	(2,313,050)	(2,234,029)
Construction work in progress	185,026	193,028
Net utility plant	5,685,197	5,093,238
Other property and investments	133,787	116,146
Current assets:		
Cash and cash equivalents	40,489	31,962
Accounts receivable, net of allowances	150,793	140,057
Accrued utility revenue	79,100	77,200
Income taxes receivable, net	25,901	13,444
Deferred purchased gas costs	44,412	4,928
Prepaid and other current assets	165,639	229,562
Total current assets	506,334	497,153
Noncurrent assets:		
Goodwill	10,095	10,095
Deferred charges and other assets	463,333	424,952
Total noncurrent assets	473,428	435,047
Total assets	\$ 6,798,746	\$ 6,141,584
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock	\$ 49,112	\$ 49,112
Additional paid-in capital	1,229,083	1,065,242
Accumulated other comprehensive loss, net	(55,151)	(49,049)
Retained earnings	782,108	717,155
Total equity	2,005,152	1,782,460
Long-term debt, less current maturities	1,991,333	1,818,669
Total capitalization	3,996,485	3,601,129
Commitments and contingencies (Note 10)		
Current liabilities:		
Current maturities of long-term debt	125,000	—
Short-term debt	194,000	152,000
Accounts payable	149,368	184,982
Customer deposits	69,165	67,940
Accrued general taxes	48,160	43,560
Accrued interest	21,256	20,243
Deferred purchased gas costs	60,755	79,762
Payable to parent	844	472
Other current liabilities	126,573	94,136
Total current liabilities	795,121	643,095
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits, net	539,050	490,458
Accumulated removal costs	395,000	383,000
Other deferred credits and other long-term liabilities	1,073,090	1,023,902
Total deferred income taxes and other credits	2,007,140	1,897,360
Total capitalization and liabilities	\$ 6,798,746	\$ 6,141,584

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Thousands of dollars)

	Year Ended December 31,		
	2019	2018	2017
Gas operating revenues	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308
Operating expenses:			
Net cost of gas sold	385,164	419,388	355,045
Operations and maintenance	422,174	404,813	391,321
Depreciation and amortization	215,620	191,816	201,922
Taxes other than income taxes	62,328	59,898	57,946
Total operating expenses	1,085,286	1,075,915	1,006,234
Operating income	283,653	281,813	296,074
Other income and (expenses):			
Net interest deductions	(95,026)	(81,740)	(69,733)
Other income (deductions)	9,517	(17,240)	(6,388)
Total other income and (expenses)	(85,509)	(98,980)	(76,121)
Income before income taxes	198,144	182,833	219,953
Income tax expense	34,973	43,991	63,135
Net income	\$ 163,171	\$ 138,842	\$ 156,818

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Thousands of dollars)

	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 163,171	\$ 138,842	\$ 156,818
Other comprehensive income (loss), net of tax			
Defined benefit pension plans:			
Net actuarial loss	(54,026)	(15,524)	(32,701)
Amortization of prior service cost	966	1,015	828
Amortization of net actuarial loss	17,766	25,549	15,776
Prior service cost	(1,426)	—	—
Regulatory adjustment	28,077	(6,257)	12,590
Net defined benefit pension plans	(8,643)	4,783	(3,507)
Forward-starting interest rate swaps ("FSIRS"):			
Amounts reclassified into net income	2,541	2,541	2,073
Net forward-starting interest rate swaps	2,541	2,541	2,073
Total other comprehensive income (loss), net of tax	(6,102)	7,324	(1,434)
Comprehensive income	\$ 157,069	\$ 146,166	\$ 155,384

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended December 31,		
	2019	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES:			
Net income	\$ 163,171	\$ 138,842	\$ 156,818
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	215,620	191,816	201,922
Deferred income taxes	33,681	42,999	67,169
Changes in current assets and liabilities:			
Accounts receivable, net of allowances	(10,737)	(20,309)	(7,902)
Accrued utility revenue	(1,900)	1,000	(2,000)
Deferred purchased gas costs	(58,491)	82,574	(95,608)
Accounts payable	(27,473)	23,408	4,545
Accrued taxes	8,895	(18,732)	10,383
Other current assets and liabilities	89,171	(91,444)	(13,726)
Changes in undistributed stock compensation	5,146	5,355	9,288
Equity AFUDC	(4,161)	(3,627)	(2,296)
Changes in deferred charges and other assets	(31,767)	(7,049)	(22,918)
Changes in other liabilities and deferred credits	(13,361)	37,669	3,541
Net cash provided by operating activities	<u>367,794</u>	<u>382,502</u>	<u>309,216</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Construction expenditures and property additions	(778,748)	(682,869)	(560,448)
Changes in customer advances	19,001	13,463	323
Other inflows (outflows)	(95)	14	2,741
Net cash used in investing activities	<u>(759,842)</u>	<u>(669,392)</u>	<u>(557,384)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Contributions from parent	159,936	113,549	41,359
Dividends paid	(95,900)	(87,000)	(81,497)
Issuance of long-term debt, net	297,222	297,495	—
Retirement of long-term debt	—	—	(25,000)
Change in credit facility and commercial paper	—	—	145,000
Change in short-term debt	42,000	(39,000)	191,000
Withholding remittance – share-based compensation	(1,858)	(3,110)	(3,176)
Other	(825)	(1,028)	(596)
Net cash provided by financing activities	<u>400,575</u>	<u>280,906</u>	<u>267,090</u>
Change in cash and cash equivalents	8,527	(5,984)	18,922
Cash and cash equivalents at beginning of period	31,962	37,946	19,024
Cash and cash equivalents at end of period	<u>\$ 40,489</u>	<u>\$ 31,962</u>	<u>\$ 37,946</u>
SUPPLEMENTAL INFORMATION:			
Interest paid, net of amounts capitalized	<u>\$ 88,658</u>	<u>\$ 73,805</u>	<u>\$ 64,790</u>
Income taxes paid (received), net	<u>\$ 678</u>	<u>\$ (5,856)</u>	<u>\$ (7,854)</u>

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Year Ended December 31,		
	2019	2018	2017
Common stock shares			
Beginning and ending balances	47,482	47,482	47,482
Common stock amount			
Beginning and ending balances	\$ 49,112	\$ 49,112	\$ 49,112
Additional paid-in capital			
Beginning balances	1,065,242	948,767	897,346
Share-based compensation	3,905	2,926	10,062
Contributions from Southwest Gas Holdings, Inc.	159,936	113,549	41,359
Ending balances	1,229,083	1,065,242	948,767
Accumulated other comprehensive loss			
Beginning balances	(49,049)	(47,073)	(45,639)
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax	(8,643)	4,783	(3,507)
FSIRS amounts reclassified to net income, net of tax	2,541	2,541	2,073
Reclassification of excess deferred taxes	—	(9,300)	—
Ending balances	(55,151)	(49,049)	(47,073)
Retained earnings			
Beginning balances	717,155	659,193	767,061
Net income	163,171	138,842	156,818
Distribution to Southwest Gas Holdings, Inc. investment in discontinued operations	—	—	(182,773)
Share-based compensation	(618)	(680)	(784)
Dividends declared to Southwest Gas Holdings, Inc.	(97,600)	(89,500)	(81,129)
Reclassification of excess deferred taxes	—	9,300	—
Ending balances	782,108	717,155	659,193
Total Southwest Gas Corporation equity ending balances	\$ 2,005,152	\$ 1,782,460	\$ 1,609,999

The accompanying notes are an integral part of these statements.

Note 1 - Background, Organization, and Summary of Significant Accounting Policies

Nature of Operations. This is a combined annual report of Southwest Gas Holdings, Inc. and its subsidiaries (the “Company”) and Southwest Gas Corporation and its subsidiaries (“Southwest” or the “natural gas operations” segment). The notes to the consolidated financial statements apply to both entities. Southwest Gas Holdings, Inc. is a holding company, owning all of the shares of common stock of Southwest and all of the shares of common stock of Centuri Group, Inc. (“Centuri” or the “utility infrastructure services” segment). At the annual meeting of stockholders of Southwest Gas Holdings, Inc., held on May 2, 2019, stockholders voted to approve changing the state of incorporation for Southwest Gas Holdings, Inc. from California to Delaware. The reincorporation became effective in September 2019.

Southwest is engaged in the business of purchasing, distributing, and transporting natural gas for customers in portions of Arizona, Nevada, and California. 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 purchases and the timing of related recoveries can materially impact liquidity. Results for the natural gas operations segment are higher during winter periods due to the seasonality incorporated in its regulatory rate structures.

Centuri is a comprehensive utility infrastructure services enterprise dedicated to delivering a diverse array of solutions to North America’s gas and electric providers. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions. Centuri operations are generally conducted under the business names of NPL Construction Co. (“NPL”), NPL Canada Ltd. (“NPL Canada”), New England Utility Constructors, Inc. (“Neuco”), and Linetec Services, LLC (“Linetec”). Utility infrastructure services activity is seasonal in most of Centuri’s operating areas. Peak periods are the summer and fall months in colder climate areas, such as the northeastern and midwestern United States (“U.S.”) and in Canada. In warmer climate areas, such as the southwestern and southeastern U.S., utility infrastructure services activity continues year round. In November 2018, Centuri acquired an 80% interest in Linetec, thereby expanding its operations in the southeast region of the U.S. See **Note 17 - Business Acquisitions**.

Basis of Presentation. The Company follows accounting principles generally accepted in the United States (“U.S. GAAP”) in accounting for all of its businesses. Unless specified otherwise, all amounts are in U.S. dollars. Accounting for natural gas utility operations conforms with U.S. GAAP as applied to rate-regulated companies and as prescribed by federal agencies and commissions of the various states in which the utility operates. The preparation of financial statements in conformity with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. No substantive change has occurred with regard to the Company’s business segments on the whole, or in the primary businesses comprising those segments as a result of the foregoing acquisition of Linetec.

Consolidation. The accompanying financial statements are presented on a consolidated basis for Southwest Gas Holdings, Inc. and all subsidiaries and Southwest Gas Corporation and all subsidiaries as of December 31, 2019 (except those accounted for using the equity method as discussed below). All significant intercompany balances and transactions have been eliminated with the exception of transactions between Southwest and Centuri in accordance with accounting treatment for rate-regulated entities.

Centuri, through its subsidiaries, holds a 50% interest in W.S. Nicholls Western Construction Ltd. (“Western”), a Canadian infrastructure services company that is a variable interest entity. Centuri determined that it is not the primary beneficiary of the entity due to a shared-power structure; therefore, Centuri does not consolidate the entity and has recorded its investment, and results related thereto, using the equity method. The investment in Western, related earnings, and dividends received from Western in 2019 and 2018 were not significant. Centuri’s maximum exposure to loss as a result of its involvement with Western was estimated at \$12.2 million as of December 31, 2019.

Fair Value Measurements. Certain assets and liabilities are reported at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

U.S. GAAP states that a fair value measurement should be based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy that ranks the inputs used to measure fair value by their reliability. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to fair values derived from unobservable inputs (Level 3 measurements). Financial assets and liabilities are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for similar assets or liabilities, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

The Company primarily used quoted market prices and other observable market pricing information in valuing cash and cash equivalents, derivatives, long-term debt outstanding, and assets of the qualified pension plan and the PBOP required to be recorded and/or disclosed at fair value. The Company uses prices and inputs that are current as of the measurement date, and recognizes transfers between levels at either the actual date of an event or a change in circumstance that caused the transfer.

Net Utility Plant. Net utility plant includes gas plant at original cost, less the accumulated provision for depreciation and amortization, plus the unamortized balance of acquisition adjustments. Original cost generally includes contracted services, material, payroll, and related costs such as taxes and certain benefits, general and administrative expenses, and an allowance for funds used during construction, less contributions in aid of construction.

Other Property and Investments. Other property and investments on Southwest’s and the Company’s Consolidated Balance Sheets includes:

(Thousands of dollars)	December 31,	
	2019	2018
Southwest Gas Corporation:		
Net cash surrender value of COLI policies	\$ 132,072	\$ 114,405
Other property	1,715	1,741
Total Southwest Gas Corporation	133,787	116,146
Centuri property, equipment, and intangibles	983,905	792,191
Centuri accumulated provision for depreciation and amortization	(352,333)	(298,939)
Other property	18,814	14,153
Total Southwest Gas Holdings, Inc.	\$ 784,173	\$ 623,551

Included in the table above are the net cash surrender values of company-owned life insurance (“COLI”) policies. These life insurance policies on members of management and other key employees are used by Southwest to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans.

Intangible Assets. Intangible assets (other than goodwill) are amortized using the straight-line method to reflect the pattern of economic benefits consumed over the estimated periods benefited. The recoverability of intangible assets is evaluated when events or circumstances indicate that a revision of estimated useful lives is warranted or that an intangible asset may be impaired. The intangible assets associated with utility infrastructure services businesses previously acquired include those most recently added from the Linetec acquisition in 2018. All have finite lives. These intangible assets are included in Other property and investments on the Company’s Consolidated Balance Sheets. Centuri’s intangible assets, not including goodwill, at December 31, 2019 and 2018, respectively, were as follows:

(Thousands of dollars)	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 154,186	\$ (20,735)	\$ 133,451
Trade names and trademarks	23,353	(6,754)	16,599
Customer contracts backlog	270	(252)	18
Noncompete agreements	2,045	(1,602)	443
Total	\$ 179,854	\$ (29,343)	\$ 150,511

(Thousands of dollars)	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 152,533	\$ (11,716)	\$ 140,817
Trade names and trademarks	23,013	(5,234)	17,779
Customer contracts backlog	270	(3)	267
Noncompete agreements	2,022	(1,064)	958
Total	\$ 177,838	\$ (18,017)	\$ 159,821

Amortization expense for the acquired intangible assets listed above for the years ended December 31, 2019, 2018, and 2017 was \$10.7 million, \$7.6 million, and \$4.1 million, respectively.

The estimated future amortization of the intangible assets for the next five years and thereafter is as follows:

(Thousands of dollars)

2020	\$	10,722
2021		10,303
2022		10,215
2023		10,215
2024		10,215
Thereafter		98,841
Total	\$	150,511

See **Note 2 - Utility Plant and Leases** for additional information regarding natural gas operations intangible assets. **Note 17 - Business Acquisitions** includes detailed information about intangible assets purchased in association with the Linetec acquisition.

Cash and Cash Equivalents. For purposes of reporting consolidated cash flows, cash and cash equivalents includes cash on hand and financial instruments with original maturities of three months or less. Such investments are carried at cost, which approximates market value. Cash and cash equivalents for Southwest and the Company also include money market fund investments totaling approximately \$23.5 million and \$26.7 million, respectively at December 31, 2019, and \$18 million and \$59.9 million, respectively, at December 31, 2018, which fall within Level 2 of the fair value hierarchy, due to the asset valuation methods used by money market funds.

Typical non-cash investing activities for Southwest include customer advances applied as contributions toward utility construction activity and capital expenditures that were not paid as of year end that are included in accounts payable. Amounts related to such activities were not significant for the periods presented herein. Also, see **Note 2 - Utility Plant and Leases** for information related to right-of-use assets obtained in exchange for lease liabilities, which are non-cash investing and financing activities. Right-of-use assets and lease liabilities are also subject to non-cash impacts as a result of other factors, such as lease terminations and modifications.

Income Taxes. The asset and liability method of accounting is utilized for the recognition of income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. For regulatory and financial reporting purposes, investment tax credits (“ITC”) related to gas utility operations are deferred and amortized over the life of related fixed assets. As of December 31, 2019, the Company had cumulative book earnings of approximately \$32 million in its foreign jurisdiction. Management previously asserted and continues to assert that all the earnings of Centuri’s Canadian subsidiaries will be permanently reinvested in Canada. As a result, no U.S. deferred income taxes have been recorded related to cumulative foreign earnings.

The Financial Accounting Standards Board (the “FASB”) issued guidance to allow an accounting policy election of either (i) treating taxes attributable to future taxable income related to Global Intangible Low-Taxed Income (“GILTI”) as a current period expense when incurred or (ii) recognizing deferred taxes for temporary differences expected to reverse as GILTI in future years. The Company has elected to treat GILTI as a current period cost when incurred and has considered the estimated 2019 GILTI impact in its 2019 tax expense, which was immaterial.

Deferred Purchased Gas Costs. The various regulatory commissions have established procedures to enable Southwest to adjust its billing rates for changes in the cost of natural gas purchased. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred. Generally, these deferred amounts are recovered or refunded within one year.

Prepaid and other current assets. Prepaid and other current assets for Southwest and the Company include gas pipe materials and operating supplies of \$57 million in 2019 and \$56 million in 2018 (carried at weighted average cost), and also include \$33 million in 2019 and \$74 million in 2018 related to a regulatory asset associated with the Arizona decoupling mechanism (an alternative revenue program).

Goodwill. As required by U.S. GAAP, goodwill is assessed for impairment annually, or more frequently, if circumstances indicate impairment to the carrying value of goodwill may have occurred. The goodwill impairment analysis is conducted as of October 1st each year and may start with an assessment of qualitative factors (commonly referred to as Step 0) to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the qualitative factors, management determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or if management does not perform a qualitative assessment, a Step 1 impairment test will be performed. Management of the Company and Southwest considered its reporting units and segments and determined that its segments and reporting units remain consistent between periods presented below, and that no change was necessary with regard to the level at which goodwill is assessed for impairment. The Company and Southwest determined that it is not more likely than not that the fair value of the reporting units was less than their carrying amounts in either 2019 or 2018. Thus, no impairment was recorded in either year. Goodwill on the Company's Consolidated Balance Sheet includes:

(Thousands of dollars)	Natural Gas Operations	Utility Infrastructure Services	Total Company
Balance, December 31, 2017	\$ 10,095	\$ 169,219	\$ 179,314
Measurement-period adjustments - Neuco acquisition	—	182	182
Goodwill from Linetec acquisition	—	188,494	188,494
Foreign currency translation adjustment	—	(8,945)	(8,945)
Balance, December 31, 2018	10,095	348,950	359,045
Measurement-period adjustments - Linetec acquisition	—	(21,172)	(21,172)
Foreign currency translation adjustment	—	5,150	5,150
Balance, December 31, 2019	<u>\$ 10,095</u>	<u>\$ 332,928</u>	<u>\$ 343,023</u>

Other Current Liabilities. Management recognizes in its balance sheets various liabilities that are expected to be settled through future cash payment within the next twelve months, including certain regulatory liabilities (refer to **Note 5 - Regulatory Assets and Liabilities**), customary accrued expenses for employee compensation and benefits, and declared but unpaid dividends. Amounts included in the Consolidated Balance Sheet of the Company as of December 31, 2018 reflect \$75.6 million in unremitted amounts associated with the Linetec acquisition noted above.

Accumulated Removal Costs. Approved regulatory practices allow Southwest to include in depreciation expense a component intended to recover removal costs associated with utility plant retirements. In accordance with the Securities and Exchange Commission ("SEC") position on presentation of these amounts, management reclassifies estimated removal costs from accumulated depreciation to accumulated removal costs within the liabilities section of the Consolidated Balance Sheets. Management regularly updates the estimated accumulated removal costs as amounts fluctuate between periods depending on the level of replacement work performed, the estimated cost of removal in rates, and the actual cost of removal experienced.

Gas Operating Revenues. Southwest recognizes revenue when it satisfies its performance by transferring gas to the customer. Natural gas is delivered and "consumed" by the customer simultaneously. Revenues are recorded when customers are billed. Customer billings are substantially based on monthly meter reads and include certain other charges assessed monthly, and are calculated in accordance with applicable tariffs and state and local laws, regulations, and related agreements. An estimate of the margin associated with natural gas service provided, but not yet billed, to residential and commercial customers from the latest meter read date to the end of the reporting period is also recognized as accrued utility revenue. Revenues also include the net impacts of margin tracker/decoupling accruals based on criteria in U.S. GAAP for rate-regulated entities associated with alternative revenue programs. All of Southwest's service territories have decoupled rate structures, which are designed to eliminate the direct link between volumetric sales and revenue, thereby mitigating the impacts of unusual weather variability and conservation on margin. See **Note 3 - Revenue**.

Utility Infrastructure Services Revenues. The majority of Centuri contracts are performed under unit-price contracts. Generally, these contracts state prices per unit of installation. Typical installations are accomplished in a few weeks or less. Revenues are recorded as installations are completed. Revenues are recorded for long-term fixed-price contracts in a pattern that reflects the transfer of control of promised goods and services to the customer over time. The amount of revenue recognized on fixed-price contracts is based on costs expended to date relative to anticipated final contract costs. Changes in job performance, job conditions, and final contract settlements are factors that influence management's assessment of total contract value and the total estimated costs to complete those contracts. Revisions in estimates of costs and earnings during the course of work are reflected in the accounting period in which the facts requiring revision become known. If a loss on a contract becomes known or is anticipated, the entire amount of the estimated ultimate loss is recognized at that time in the financial statements. Some unit-price contracts contain caps that if encroached, trigger revenue and loss recognition similar to a fixed-price contract model. See **Note 3 - Revenue**.

Utility Infrastructure Services Expenses. Centuri’s utility infrastructure services expenses in the Consolidated Statements of Income includes payroll expenses, office and equipment rental costs, subcontractor expenses, training, job-related materials, gains and losses on equipment sales, and professional fees.

Net Cost of Gas Sold. Components of net cost of gas sold include natural gas commodity costs (fixed-price and variable-rate), pipeline capacity/transportation costs, and actual settled costs of natural gas derivative instruments. Also included are the net impacts of purchased gas adjustment (“PGA”) deferrals and recoveries, which by their inclusion, result in net cost of gas sold overall that is comparable to amounts included in billed gas operating revenues. Differences between amounts incurred with suppliers, transmission pipelines, etc. and those already included in customer rates, are temporarily deferred in PGA accounts pending inclusion in customer rates.

Operations and Maintenance Expense. Operations and maintenance expense includes Southwest’s operating and maintenance costs associated with serving utility customers and maintaining its distribution and transmission systems, uncollectible expense, administrative and general salaries and expense, employee benefits expense excluding relevant non-service cost components (see **Note 11 - Pension and Other Postretirement Benefits**), and legal expense (including injuries and damages).

Depreciation and Amortization. Utility plant depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives, including components which compensate for removal costs (net of salvage value), and retirements, as approved by the appropriate regulatory agency. When plant is retired from service, the original cost of plant, including cost of removal, less salvage, is charged to the accumulated provision for depreciation. See also discussion regarding *Accumulated Removal Costs* above. Other regulatory assets, including acquisition adjustments, are amortized when appropriate, over time periods authorized by regulators. Non-utility and utility infrastructure services-related property and equipment are depreciated on a straight-line method based on the estimated useful lives of the related assets. Costs and gains related to refunding utility debt and debt issuance expenses are deferred and amortized over the weighted-average lives of the new issues and become a component of interest expense.

Allowance for Funds Used During Construction (“AFUDC”). AFUDC represents the cost of both debt and equity funds used to finance utility construction. AFUDC is capitalized as part of the cost of utility plant. The debt portion of AFUDC is reported in the Company’s and Southwest’s Consolidated Statements of Income as an offset to Net interest deductions and the equity portion is reported as Other income. Utility plant construction costs, including AFUDC, are recovered in authorized rates through depreciation when completed projects are placed into operation, and general rate relief is requested and granted.

(Thousands of dollars)	2019	2018	2017
AFUDC:			
Debt portion	\$ 4,558	\$ 3,264	\$ 1,666
Equity portion	4,161	3,627	2,296
AFUDC capitalized as part of utility plant	<u>\$ 8,719</u>	<u>\$ 6,891</u>	<u>\$ 3,962</u>
AFUDC rate	<u>5.36%</u>	<u>5.85%</u>	<u>5.95%</u>

Other Income (Deductions). The following table provides the composition of significant items included in Other income (deductions) on the Consolidated Statements of Income:

(Thousands of dollars)	2019	2018	2017
Southwest Gas Corporation – natural gas operations segment:			
Change in COLI policies	\$ 17,400	\$ (3,200)	\$ 10,300
Interest income	6,356	6,020	2,784
Equity AFUDC	4,161	3,627	2,296
Other components of net periodic benefit cost	(15,059)	(21,059)	(19,424)
Miscellaneous income and (expense)	(3,341)	(2,628)	(2,344)
Southwest Gas Corporation – total other income (deductions)	9,517	(17,240)	(6,388)
Utility infrastructure services segment:			
Interest income	—	88	3
Foreign transaction gain (loss)	546	(222)	(754)
Equity in earnings of unconsolidated investment – Western	439	531	1,052
Miscellaneous income and (expense)	(519)	(635)	44
Centuri – total other income (deductions)	466	(238)	345
Corporate and administrative	102	52	13
Consolidated Southwest Gas Holdings, Inc. - total other income (deductions)	\$ 10,085	\$ (17,426)	\$ (6,030)

Included in the table above is the change in COLI policies (including net death benefits recognized). Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, changes in the cash surrender value components of COLI policies, as they progress towards the ultimate death benefits, are also recorded without tax consequences.

Foreign Currency Translation. Foreign currency-denominated assets and liabilities of consolidated subsidiaries are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates. Translation adjustments resulting from fluctuations in exchange rates are recorded as a separate component of accumulated other comprehensive income within stockholders' equity. Results of operations of foreign subsidiaries are translated using the monthly weighted-average exchange rates during the respective periods. Gains and losses resulting from foreign currency transactions are included in Other income (expense) of the Company. Gains and losses resulting from intercompany foreign currency transactions that are of a long-term investment nature are reported in Other comprehensive income, if applicable.

Earnings Per Share. Basic earnings per share ("EPS") in each period of this report were calculated by dividing net income attributable to Southwest Gas Holdings, Inc. by the weighted-average number of shares during those periods. Diluted EPS includes additional weighted-average common stock equivalents (performance shares and restricted stock units). Unless otherwise noted, the term "Earnings Per Share" refers to Basic EPS. A reconciliation of the denominator used in the Basic and Diluted EPS calculations is shown in the following table:

(In thousands)	2019	2018	2017
Average basic shares	54,245	49,419	47,965
Effect of dilutive securities:			
Management Incentive Plan shares	12	25	8
Restricted stock units (1)	55	32	18
Average diluted shares	54,312	49,476	47,991

(1) The number of securities granted for 2019, 2018, and 2017 includes 46,000, 23,000, and 7,000 performance shares, respectively, the total of which was derived by assuming that target performance will be achieved during the relevant performance period.

Recent Accounting Standards Updates.

Accounting pronouncements adopted in 2019:

In February 2016, the FASB issued the update "Leases (Topic 842)." Under the update, lessees were required to recognize a lease liability for the obligation to make lease payments, measured on a discounted basis; and a right-of-use asset for the right to use, or control the use of, a specified asset for the lease term. The Company and Southwest adopted Topic 842 in the first quarter of 2019 through an optional transition method, which was elected, permitting the application of the provisions of the standard at the adoption date, rather than to earlier comparative periods. As a result, the Company and Southwest have not recast prior periods to reflect the adoption of this standard. See **Note 2 - Utility Plant and Leases.**

Recently issued accounting pronouncements that will be effective in 2020:

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The update requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The inputs currently used to estimate credit losses will still be utilized, however they may be adapted to reflect the full amount of expected losses, should there be a difference. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company and Southwest have completed their evaluation of this standard and will adopt the update as required. Management does not expect the impact to be material to the Company’s or Southwest’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04 “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” Under the update, an entity will apply a one-step quantitative test as opposed to a two-step test as currently required and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The amendments should be applied on a prospective basis and is effective for fiscal and interim periods beginning after December 15, 2019. The Company and Southwest will apply the update prospectively at the date of adoption during the first quarter of 2020. The amount of any future goodwill impairment calculated under the update could vary from the calculation under the existing guidance.

In August 2018, the FASB issued ASU 2018-15 “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” The update generally aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement (that is a service contract) with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software, with the exception that the FASB intends for implementation costs associated with hosted arrangements that are service contracts to be included in the same line item in the balance sheet that a prepayment of the fees associated with the arrangement would be presented. Once capitalized, the update also requires the entity to expense the amount capitalized over the term of the hosting arrangement, including reasonably certain renewal periods. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company and Southwest will apply the update prospectively at the date of adoption during the first quarter of 2020, and management does not expect the amendment to have a material impact on the Company’s or Southwest’s consolidated financial statements.

Recently issued accounting pronouncements that will be effective after 2020:

In August 2018, the FASB issued ASU 2018-14 “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans.” This update removes disclosures that are no longer considered cost-beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The update applies to all employers that sponsor defined benefit pension or other postretirement plans. The update is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. Management is evaluating the impacts this update might have on its disclosures.

In August 2018, the FASB issued ASU 2018-13 “Fair Value Measurement: Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” The update modifies the disclosure requirements on fair value measurements in Topic 820. The update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Upon adoption, the Company and Southwest will modify their disclosures to conform to the requirements of the update, as applicable.

In December 2019, the FASB issued ASU 2019-12 “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.” The update simplifies the accounting for income taxes by removing certain exceptions to the general principles, as well as improving consistent application in Topic 740 by clarifying and amending existing guidance. The update is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted for periods for which financial statements have not yet been made available for issuance. Management is evaluating the impacts this update might have on the Company’s and Southwest’s consolidated financial statements and disclosures.

Subsequent Events. Management monitors events occurring after the balance sheet date and prior to the issuance of the financial statements to determine the impacts, if any, of events on the financial statements to be issued or disclosures to be made, and has reflected them where appropriate.

Note 2 - Utility Plant and Leases

Net Utility Plant

Net utility plant as of December 31, 2019 and 2018 was as follows:

(Thousands of dollars)	December 31,	
	2019	2018
Gas plant:		
Storage	\$ 100,908	\$ 26,825
Transmission	391,864	386,159
Distribution	6,581,043	6,049,380
General	467,274	416,643
Software and software-related intangibles	256,299	241,158
Other	15,833	14,074
	<u>7,813,221</u>	<u>7,134,239</u>
Less: accumulated depreciation and amortization	(2,313,050)	(2,234,029)
Construction work in progress	185,026	193,028
Net utility plant	<u>\$ 5,685,197</u>	<u>\$ 5,093,238</u>

Utility plant depreciation is computed on the straight-line remaining life method at composite rates considered sufficient to amortize costs over estimated service lives, including components which are intended to compensate for removal costs (net of salvage value), and retirements, based on the processes of regulatory proceedings and related regulatory commission approvals and/or mandates. In 2019, annual utility depreciation and amortization expense averaged 2.7% of the original cost of depreciable and amortizable property. Average rates in 2018 and 2017 approximated 2.7% and 3.0%. Transmission and Distribution plant are associated with the core natural gas delivery infrastructure, and combined, constitute the majority of gas plant. Annual utility depreciation expense averaged approximately 2.3% of the original cost of depreciable transmission and distribution plant during the period 2017 through 2019.

Depreciation and amortization expense on gas plant, including intangibles, was as follows:

(Thousands of dollars)	2019	2018	2017
Depreciation and amortization expense	\$ 197,358	\$ 185,719	\$ 187,075

Included in the figures above is amortization of utility intangibles of \$13.2 million, \$13.6 million, and \$14.3 million for the years ended December 31, 2019, 2018, and 2017, respectively. The amounts above exclude regulatory asset and liability amortization.

Leases

The Company and Southwest adopted FASB Topic 842 as of January 1, 2019. In association with the adoption, the Company recorded adjustments to its Consolidated Balance Sheet to record right-of-use (“ROU”) assets and lease liabilities of \$58.4 million and \$60.8 million, respectively. Included in those amounts, Southwest recorded \$1.9 million related to both its ROU assets and lease liabilities. Neither the Company nor Southwest experienced a material impact to the Consolidated Statements of Income from the adoption and no cumulative-effect adjustment to the opening balance of retained earnings was recognized. Management elected to adopt the standard under the optional transition method (refer to *Recent Accounting Standards Updates* in **Note 1 – Background, Organization, and Summary of Significant Accounting Policies**), and elected the following Topic 842 practical expedients and accounting policy elections:

- To use the “package”, which is a set of three practical expedients that must be elected as a package and applied consistently to all of Southwest’s and Centuri’s leases. These include: not reassessing whether any expired or existing contracts are or contain leases; not reassessing the lease classification for expired or existing leases (that is, existing operating and capital leases in accordance with current lease guidance will in each case be classified as operating and finance leases, respectively, under the updated guidance); and not reassessing initial direct costs for any existing leases.
- To utilize the practical expedient to exclude all easements in place prior to January 1, 2019 from treatment under Topic 842. However, Southwest will evaluate new easements entered into after the effective date of the standard to determine if the arrangements should be accounted for as leases.
- To make an accounting policy election by asset class to include both the lease and non-lease components (as defined in the guidance) as a single component.
- To make an accounting policy election to not apply Topic 842 to short-term leases, as permitted.
- To not elect to use hindsight in determining the lease term and in assessing impairment of ROU assets.

- To utilize a portfolio approach to effectively account for the operating lease ROU assets and liabilities with regard to certain equipment leases at Centuri.

Southwest and Centuri determine if an arrangement is a lease at inception. ROU assets represent the right to use an underlying asset for the lease term; lease liabilities represent obligations to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As most of Southwest's and Centuri's leases do not provide an implicit interest rate, an incremental borrowing rate based on information available at commencement is used in determining the present value of lease payments; an implicit rate, if readily determinable, is used. Lease terms utilized in the computations may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

Southwest's leases are comprised primarily of operating leases of buildings, land, and equipment. Southwest has no finance leases and no significant short-term leases. Southwest's leases have a remaining term of up to 7 years, some of which include optional renewal periods. Southwest is currently not a lessor in any significant lease arrangements.

Centuri has operating and finance leases for corporate and field offices, construction equipment, and transportation vehicles. Centuri is currently not a lessor in any significant lease arrangements. Centuri's leases have remaining lease terms of up to 18 years. Some of these include options to extend the leases, generally for optional terms of up to 5 years, and some include options to terminate the leases within 1 year. Centuri's equipment leases may include variable payment terms in addition to the fixed lease payments if machinery is used in excess of the standard work periods. These variable payments are not probable of occurring under the current operating environment and have not been included in consideration of lease payments. Due to the seasonality of Centuri's business, expense for short-term leases will fluctuate throughout the year with higher expense incurred during the warmer months. As of December 31, 2019, Centuri executed lease agreements that had not yet commenced. These lease agreements primarily relate to real estate leases that have terms ranging from January 2020 through March 2030. Total future lease payments over the lease terms are approximately \$5.1 million. In the fourth quarter of 2019, Centuri management determined it was reasonably certain that purchase options related to specified rented equipment would be exercised. As a result, Centuri recorded a finance lease of approximately \$13.8 million. The purchase of the equipment by Centuri is expected to occur in 2020.

The components of lease expense were as follows:

(Thousands of dollars)	Year Ended December 31, 2019
Southwest:	
Operating lease cost	\$ 1,531
Centuri:	
Operating lease cost	\$ 12,235
Finance lease cost:	
Amortization of ROU assets	\$ 137
Interest on lease liabilities	34
Total finance lease cost	171
Short-term lease cost	16,217
Total lease cost - Southwest Gas Holdings, Inc.	\$ 30,154

Supplemental cash flow information related to leases for the year ended December 31, 2019 was as follows:

(Thousands of dollars)	Southwest	Centuri	Consolidated Total
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 1,278	\$ 11,166	\$ 12,444
Operating cash flows from finance leases	—	33	33
Financing cash flows from finance leases	—	212	212
ROU assets obtained in exchange for lease obligations:			
Operating leases	\$ 862	\$ 23,825	\$ 24,687
Finance leases	—	13,839	13,839

Supplemental information related to leases, including location in the Consolidated Balance Sheets, is as follows:

(Thousands of dollars)	December 31, 2019
Southwest:	
Operating leases:	
Net utility plant	\$ 1,443
Other current liabilities	723
Other deferred credits and other long-term liabilities	730
Total operating lease liabilities	\$ 1,453
Weighted average remaining lease term (in years)	2.88
Weighted average discount rate	3.18%
Centuri:	
Operating leases:	
Other property and investments	\$ 78,954
Other current liabilities	8,851
Other deferred credits and other long-term liabilities	73,323
Total operating lease liabilities	\$ 82,174
Finance leases:	
Other property and investments	\$ 14,264
Other current liabilities	13,769
Other deferred credits and other long-term liabilities	355
Total finance lease liabilities	\$ 14,124
Weighted average remaining lease term (in years)	
Operating leases	10.25
Finance leases	2.13
Weighted average discount rate	
Operating leases	4.03%
Finance leases	6.10%

With regard to the finance lease balance as of December 31, 2019, there exist lease provisions for purchase options that meet the “reasonably certain” threshold related to exercise of such options. These amounts were not included in the calculations of the weighted average remaining lease term and discount rate for finance leases above.

The following are schedules of maturities of lease liabilities as of December 31, 2019:

(Thousands of dollars)	Operating Leases	
Southwest:		
2020	\$	756
2021		376
2022		188
2023		78
2024		56
Thereafter		74
Total lease payments		1,528
Less imputed interest		75
Total	\$	1,453

(Thousands of dollars)	Operating Leases		Finance Leases	
Centuri:				
2020	\$	12,225	\$	13,799
2021		11,235		143
2022		10,613		154
2023		8,823		87
2024		8,065		1
Thereafter		49,862		—
Total lease payments		100,823		14,184
Less imputed interest		18,649		60
Total	\$	82,174	\$	14,124

As the Company and Southwest adopted Topic 842 using the optional transition method referred to in **Note 1 – Background, Organization, and Summary of Significant Accounting Policies**, the recent annual disclosure of rental and lease payments as of December 31, 2018 in accordance with Topic 840 is presented in the table below:

(Thousands of dollars)	2018		2017	
Southwest Gas Corporation	\$	4,556	\$	4,926
Centuri		59,491		62,310
Consolidated rental payments/lease expense	\$	64,047	\$	67,236

The following is a schedule of future minimum lease payments for operating leases (with initial or remaining terms in excess of one year) as of December 31, 2018:

(Thousands of dollars)	Southwest		Centuri		Consolidated Total	
2019	\$	898	\$	10,053	\$	10,951
2020		363		7,656		8,019
2021		299		5,760		6,059
2022		163		5,163		5,326
2023		79		3,681		3,760
Thereafter		177		10,511		10,688
Total minimum lease payments	\$	1,979	\$	42,824	\$	44,803

As of December 31, 2018, Centuri leased certain construction equipment under capital leases arrangements which were not significant.

Note 3 - Revenue

The following information about the Company's revenues is presented by segment. Southwest encompasses the natural gas operations segment and Centuri encompasses the utility infrastructure services segment.

Natural Gas Operations Segment:

Southwest recognizes revenue when it satisfies its performance by transferring gas to the customer. Revenues also include the net impacts of margin tracker/decoupling accruals based on criteria in U.S. GAAP for rate-regulated entities associated with alternative revenue programs. Revenues from customer arrangements and from alternative revenue programs are described below.

Southwest acts as an agent for state and local taxing authorities in the collection and remittance of a variety of taxes, including sales and use taxes and surcharges. These taxes are not included in Gas operating revenues. Management uses the net classification method to report taxes collected from customers to be remitted to governmental authorities.

Southwest generally offers two types of services to its customers: tariff sales and transportation-only service. Tariff sales encompass sales to many types of customers (primarily residential) under various rate schedules, subject to cost-of-service ratemaking, which is based on the rate-regulation of state commissions and the Federal Energy Regulatory Commission (the "FERC"). Southwest provides both the commodity and the related distribution service to nearly all of its approximate 2 million customers, and only several hundred customers (who are eligible to secure their own gas) subscribe to transportation-only service. Also, only a few hundred customers have contracts with stated periods. Natural gas is delivered and consumed by the customer simultaneously. The provision of service is represented by the turn of the meter dial and is the primary representation of the satisfaction of performance obligations of Southwest. The amount billable via regulated rates (both volumetric and fixed monthly rates as part of rate design) corresponds to the value to the customer, and management believes that the amount billable (amount Southwest has the right to invoice) is appropriate to utilize for purposes of recognizing revenue. Estimated amounts remaining unbilled since the last meter read date are restricted from being billed due only to the passage of time and therefore are also recognized for service provided through the balance sheet date. While natural gas service is typically recurring, there is generally not a contract term for utility service. Therefore, the contract term is not generally viewed to extend beyond the service provided to date, and customers can generally terminate service at will.

Transportation-only service is also governed by tariff rate provisions. Transportation-only service is generally only available to very large customers under requirements of Southwest's various tariffs. With this service, customers secure their own gas supply and Southwest provides transportation services to move the customer-supplied gas to the intended location. Southwest concluded that transportation/transmission service is suitable to an "over time" model. Rate structures under Southwest's regulation for transportation customers include a combination of volumetric charges and monthly "fixed" charges (including charges commonly referred to as capacity charges, demand charges, or reservation charges) as part of the rate design of regulated jurisdictions. These types of fixed charges represent a separate performance obligation associated with standing ready over the period of the month to deliver quantities of gas, regardless of whether the customer takes delivery of any quantity of gas. The performance obligations under these circumstances are satisfied over the course of the month under an output measure of progress based on time, which correlates to the period for which the charges are eligible to be invoiced.

Under its regulation, Southwest enters into negotiated rate contracts for those customers located in proximity to another pipeline, which pose a threat of bypassing its distribution system. Southwest may also enter into similar contracts for customers otherwise able to satisfy their energy needs by means of alternative fuel to natural gas. Less than two dozen customers are party to contracts with rate components subject to negotiation. Many rate provisions and terms of service for these less common types of contracts are also subject to regulatory oversight and tariff provisions. The performance obligations for these customers are satisfied similarly to those for other customers by means of transporting/delivering natural gas to the customer. Many or most of the rate components, and structures, for these types of customers are the same as those for similar customers without negotiated rate components; and the negotiated rates are within the parameters of the tariff guidelines. Furthermore, while some of these contracts include contract periods extending over time, including multiple years, as amounts billable under the contract are based on rates in effect for the customer for service provided to date, no significant financing component is deemed to exist.

As indicated above, revenues also include the net impacts of margin tracker/decoupling accruals. All of Southwest's service territories have decoupled rate structures (also referred to as alternative revenue programs) that are designed to eliminate the direct link between volumetric sales and revenue, thereby mitigating the impacts of unusual weather variability and conservation on margin. The primary alternative revenue programs involve permissible adjustments for differences between stated tariff benchmarks and amounts billable through revenue from contracts with customers via existing rates. Such adjustments are recognized monthly in revenue and in the associated regulatory asset/liability accounts in advance of rate adjustments intended to collect or return amounts recognized. Revenues recognized for the adjustment to the benchmarks noted are required to be presented separately from revenues from contracts with customers, and as such, are provided below and identified as alternative revenue program revenue (which excludes recoveries from customers).

Gas operating revenues on the Consolidated Statements of Income of both the Company and Southwest include revenue from contracts with customers, which is shown below disaggregated by customer type, and various categories of revenue:

(Thousands of dollars)	December 31,		
	2019	2018	2017
Residential	\$ 972,788	\$ 887,220	\$ 857,204
Small commercial	249,117	255,083	243,513
Large commercial	48,935	53,192	52,379
Industrial/other	22,074	23,489	22,026
Transportation	92,380	86,990	87,759
Revenue from contracts with customers	1,385,294	1,305,974	1,262,881
Alternative revenue program revenues (deferrals)	(25,112)	45,979	35,347
Other revenues (a)	8,757	5,775	4,080
Total Gas operating revenues	\$ 1,368,939	\$ 1,357,728	\$ 1,302,308

(a) Comprised of various other revenue impacts, including \$(4.9) million for 2019 and \$(13.5) million for 2018 related to tax reform savings reserves/adjustments.

Utility Infrastructure Services Segment:

The majority of Centuri contracts are performed under unit-price contracts. Generally, these contracts state prices per unit of installation. Typical installations are accomplished in a few weeks or less. Revenues are recorded as installations are completed. Revenues are recorded for long-term fixed-price contracts in a pattern that reflects the transfer of control of promised goods and services to the customer over time. The amount of revenue recognized on fixed-price contracts is based on costs expended to date relative to anticipated final contract costs (a method of recognition based on inputs). Some unit-price contracts contain caps that if encroached, trigger revenue and loss recognition similar to a fixed-price contract model.

Centuri is required to collect taxes imposed by various governmental agencies on the work performed for its customers. These taxes are not included in Utility infrastructure services revenues. Management uses the net classification method to report taxes collected from customers to be remitted to governmental authorities.

Centuri derives revenue from the installation, replacement, repair, and maintenance of energy distribution systems, and in developing industrial construction solutions. Centuri has operations in the U.S. and Canada. The majority of Centuri's revenues are related to contracts for natural gas pipeline replacement and installation work for natural gas utilities. In addition, Centuri performs certain industrial construction activities for various customers and industries. Centuri has two types of agreements with its customers: master services agreements ("MSAs") and bid contracts. Most of Centuri's customers supply many of their own materials in order for Centuri to complete its work under the contracts.

An MSA identifies most of the terms describing each party's rights and obligations that will govern future work authorizations. An MSA is often effective for multiple years. A work authorization is issued by the customer to describe the location, timing, and any additional information necessary to complete the work for the customer. The combination of the MSA and the work authorization determines when a contract exists and revenue recognition may begin. Each work authorization is generally a single performance obligation as Centuri is performing a significant integration service.

A bid contract is typically a one-time agreement for a specific project that has all necessary terms defining each party's rights and obligations. Each bid contract is evaluated for revenue recognition individually. Control of assets created under bid contracts generally passes to the customer over time. Bid contracts often have a single performance obligation as Centuri is providing a significant integration service.

Centuri's MSA and bid contracts are characterized as either fixed-price contracts or unit-price contracts for revenue recognition purposes. The cost-to-cost input method is used to measure progress towards the satisfaction of a performance obligation for fixed-price contracts. Input methods result in the recognition of revenue based on the entity's expended effort toward satisfaction of the performance obligation relative to the total expected effort to satisfy it in full. For unit-price contracts, an output method is used to measure progress towards satisfaction of a performance obligation. Also with regard to unit-price contracts, the output measurement will be the completion of each unit that is required under the contract.

Actual revenues and project costs can vary, sometimes substantially, from previous estimates due to changes in a variety of factors, including unforeseen circumstances. These factors, along with other risks inherent in performing fixed-price contracts may cause actual revenues and gross profit for a project to differ from previous estimates and could result in reduced profitability or losses on projects. Changes in these factors may result in revisions to costs and earnings, the impacts for which are recognized in the period in which the changes are identified. Once identified, these types of conditions continue to be evaluated for each project

throughout the project term and ongoing revisions in management's estimates of contract value, cost, and profit are recognized as necessary in the period determined.

Centuri categorizes work performed under MSAs and bid contracts into three primary service types: gas construction, electrical construction, and other construction. Gas construction includes work involving previously existing gas pipelines and the installation of new pipelines or service lines. Electrical construction includes work involving installation and maintenance of transmission and distribution lines and storm restoration services. Other construction includes all other work and can include industrial and water utility services.

Contracts can have compensation/consideration that is variable. For MSAs, variable consideration is evaluated at the customer level as the terms creating variability in pricing are included within the MSA and are not specific to a work authorization. For multi-year MSAs, variable consideration items are typically determined for each year of the contract and not for the full contract term. For bid contracts, variable consideration is evaluated at the individual contract level. The expected value method or most likely amount method is used based on the nature of the variable consideration. Types of variable consideration include liquidated damages, delay penalties, performance incentives, safety bonuses, payment discounts, and volume rebates. Centuri will typically estimate variable consideration and adjust financial information, as necessary.

Change orders involve the modification in scope, price, or both to the current contract, requiring approval by both parties. The existing terms of the contract continue to be accounted for under the current contract until such time as a change order is approved. Once approved, the change order is either treated as a separate contract or as part of the existing contract, as appropriate, under the circumstances. When the scope is agreed upon in the change order but not the price, Centuri estimates the change to the transaction price.

The following tables display Centuri's revenue from contracts with customers disaggregated by service type and contract type:

(Thousands of dollars)	December 31,		
	2019	2018	2017
Service Types:			
Gas infrastructure services	\$ 1,238,974	\$ 1,123,682	\$ 891,139
Electric power infrastructure services	247,717	32,629	18,114
Other	264,287	365,974	337,231
Total Utility infrastructure services revenues	\$ 1,750,978	\$ 1,522,285	\$ 1,246,484

(Thousands of dollars)	December 31,		
	2019	2018	2017
Contract Types:			
Master services agreement	\$ 1,383,377	\$ 1,102,412	\$ 885,513
Bid contract	367,601	419,873	360,971
Total Utility infrastructure services revenues	\$ 1,750,978	\$ 1,522,285	\$ 1,246,484
Unit price contracts	\$ 1,380,256	\$ 1,258,419	\$ 968,856
Fixed price contracts	112,924	117,298	127,497
Time and materials contracts	257,798	146,568	150,131
Total Utility infrastructure services revenues	\$ 1,750,978	\$ 1,522,285	\$ 1,246,484

The following table provides information about contracts receivable and revenue earned on contracts in progress in excess of billings (contract assets), both of which are included within Accounts receivable, net of allowances, and provides information about amounts billed in excess of revenue earned on contracts (contract liabilities), which are included in Other current liabilities as of December 31, 2019 and 2018 on the Company's Consolidated Balance Sheets:

(Thousands of dollars)	December 31,	
	2019	2018
Contracts receivable, net	\$ 223,904	\$ 186,249
Revenue earned on contracts in progress in excess of billings	99,399	87,520
Amounts billed in excess of revenue earned on contracts	4,525	4,211

The revenue earned on contracts in progress in excess of billings (contract asset) primarily relates to Centuri's rights to consideration for work completed but not billed and/or approved at the reporting date. These contract assets are transferred to contracts receivable

when the rights become unconditional. These contract assets are recoverable from Centuri's customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of Centuri's time and materials arrangements are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Due to the lag in invoicing associated with contractual provisions (or other economic or market conditions that may impact a customer's business), Centuri's ability to bill and subsequently collect amounts due may be impacted. These changes may result in the need to record an estimated valuation allowance to adjust contract asset balances to their net realizable value.

The amounts billed in excess of revenue earned (contract liability) primarily relate to the advance consideration received from customers for which work has not yet been completed. The change in this contract liability balance from December 31, 2018 to December 31, 2019 was due to revenue recognized of \$4.2 million that was included in this balance as of January 1, 2019, after which time it became earned and the balance was reduced, and to increases due to cash received, net of revenue recognized during the period related to contracts that commenced during the period.

For contracts that have an original duration of one year or less, Centuri does not consider/compute an interest component based on the time value of money. Further, because of the short duration of these contracts, the Company has not disclosed the transaction price for the remaining performance obligations as of the end of each reporting period or when the Company expects to recognize the revenue.

As of December 31, 2019, Centuri has 48 contracts with an original duration of more than one year. The aggregate amount of the transaction price allocated to the unsatisfied performance obligations of these contracts as of December 31, 2019 was \$93.6 million. Centuri expects to recognize the remaining performance obligations over approximately the next two years; however, the timing of that recognition is largely within the control of the customer, including when the necessary equipment and materials required to complete the work will be provided by the customer.

Utility infrastructure services contracts receivable consists of the following:

(Thousands of dollars)	December 31,	
	2019	2018
Billed on completed contracts and contracts in progress	\$ 216,268	\$ 184,100
Other receivables	8,456	2,588
Contracts receivable, gross	224,724	186,688
Allowance for doubtful accounts	(820)	(439)
Contracts receivable, net	\$ 223,904	\$ 186,249

Note 4 - Receivables and Related Allowances

Business activity with respect to gas utility operations is conducted with customers located within the three-state region of Arizona, Nevada, and California. The table below contains information about the gas utility customer accounts receivable balance (net of allowance) at December 31, 2019 and 2018, and the percentage of customers in each of the three states, which was consistent with the prior year.

(Thousands of dollars)	December 31,	
	2019	2018
Gas utility customer accounts receivable balance	\$ 148,173	\$ 138,149

The following table represents customers by state at December 31, 2019:

Percent of customers by state:

Arizona	53%
Nevada	37%
California	10%

Although Southwest seeks to minimize its credit risk related to utility operations by requiring security deposits from new customers, imposing late fees, and actively pursuing collection on overdue accounts, some accounts are ultimately not collected. Customer accounts are subject to collection procedures that vary by jurisdiction (late fee assessment, noticing requirements for disconnection of service, and procedures for actual disconnection and/or reestablishment of service). After disconnection of service, accounts are generally written off approximately two months after inactivation. Dependent upon the jurisdiction, reestablishment of service requires both payment of previously unpaid balances and additional deposit requirements. Provisions for uncollectible accounts

are recorded monthly based on experience, customer and rate composition, and write-off processes. They are included in the ratemaking process as a cost of service. The Nevada jurisdictions have a regulatory mechanism associated with the gas cost-related portion of uncollectible accounts. Such amounts are deferred and collected through a surcharge in the ratemaking process. Activity in the allowance account for uncollectibles is summarized as follows:

(Thousands of dollars)	Allowance for Uncollectibles
Balance, December 31, 2016	\$ 2,524
Additions charged to expense	2,310
Accounts written off, less recoveries	(2,723)
Balance, December 31, 2017	2,111
Additions charged to expense	2,959
Accounts written off, less recoveries	(2,902)
Balance, December 31, 2018	2,168
Additions charged to expense	3,507
Accounts written off, less recoveries	(3,580)
Balance, December 31, 2019	\$ 2,095

At December 31, 2019, the utility infrastructure services segment (Centuri) had \$323.3 million in combined customer accounts and contracts receivable. Both the allowance for uncollectibles and write-offs related to Centuri customers have been insignificant and are not reflected in the table above.

Note 5 - Regulatory Assets and Liabilities

Southwest is subject to the regulation of the Arizona Corporation Commission (“ACC”), the Public Utilities Commission of Nevada (“PUCN”), the California Public Utilities Commission (“CPUC”), and the FERC. Accounting policies of Southwest conform to U.S. GAAP applicable to rate-regulated entities and reflect the effects of the ratemaking process. Accounting treatment for rate-regulated entities allows for deferral as regulatory assets, costs that otherwise would be expensed, if it is probable that future recovery from customers will occur. If rate recovery is no longer probable, due to competition or the actions of regulators, Southwest is required to write-off the related regulatory asset. Regulatory liabilities are recorded if it is probable that revenues will be reduced for amounts that will be credited to customers through the ratemaking process. Southwest management records regulatory assets and liabilities based on decisions of the commissions noted above, including the issuance of regulatory orders and precedents established by these commissions. Southwest has generally been successful in seeking recovery of regulatory assets, and regularly files rate cases in all jurisdictions in part to establish the basis for recovering regulatory assets reflected in accounting records.

The following table represents existing regulatory assets and liabilities:

(Thousands of dollars)	December 31,	
	2019	2018
Regulatory assets:		
Accrued pension and other postretirement benefit costs (1)	\$ 420,114	\$ 383,170
Unrealized net loss on non-trading derivatives (Swaps) (2)	10,951	1,862
Deferred purchased gas costs (3)	44,412	4,928
Accrued purchased gas costs (4)	8,000	29,000
Unamortized premium on reacquired debt (5)	18,249	19,599
Accrued absence time (8)	14,519	14,126
Margin, interest- and property tax-tracking (9)	33,380	88,290
Other (10)	33,134	32,616
	<u>582,759</u>	<u>573,591</u>
Regulatory liabilities:		
Deferred purchased gas costs (3)	(60,755)	(79,762)
Accumulated removal costs	(395,000)	(383,000)
Unrealized net gain on non-trading derivatives (Swaps) (2)	—	(144)
Unamortized gain on reacquired debt (6)	(8,181)	(8,717)
Regulatory excess deferred taxes and gross-up (7)	(455,625)	(458,834)
Margin, interest- and property tax-tracking (9)	(22,650)	(7,273)
Other (10)	(4,438)	(12,638)
Net regulatory liabilities	<u>\$ (363,890)</u>	<u>\$ (376,777)</u>

(1) Included in Deferred charges and other assets on the Consolidated Balance Sheets. Recovery period is greater than five years. (See **Note 11 - Pension and Other Postretirement Benefits**).

(2) Asset balance is included in Deferred charges and other assets and Prepaid and other assets on the Consolidated Balance Sheets. Liability balance is included in Other current liabilities and Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets. The actual amounts, when realized at settlement, become a component of purchased gas costs under Southwest’s PGA mechanisms. (For specific details, see **Note 13 - Derivatives**).

(3) Balance recovered or refunded on an ongoing basis with interest.

(4) Included in Prepaid and other current assets on the Consolidated Balance Sheets. Balance recovered or refunded on an ongoing basis.

(5) Included in Deferred charges and other assets on the Consolidated Balance Sheets. Recovered over life of debt instruments.

(6) Included in Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets. Amortized over life of debt instruments.

(7) U.S. tax reform enacted in December 2017 required a remeasurement and reduction of the net accumulated deferred income tax liability. The reduction (excess accumulated deferred taxes) became a regulatory liability with appropriate tax gross-up. The excess deferred taxes reduce rate base. The tax benefit will be returned to utility customers in accordance with IRS and regulatory requirements. Included in Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets, except for \$3 million which is in Other current liabilities. This amount also includes a \$2.7 million gross-up related to contributions in aid of construction.

(8) Regulatory recovery occurs on a one-year lag basis through the labor loading process. Included in Prepaid and other current assets on the Consolidated Balance Sheets.

(9) Margin tracking/decoupling mechanisms are alternative revenue programs and revenue associated with under-collections (for the difference between authorized margin levels and amounts billed to customers through rates currently) are recognized as revenue so long as recovery is expected to take place within 24 months. Total category asset balances are included in Prepaid and other current assets on the

Consolidated Balance Sheets. Total category liability balances are included in Other current liabilities and Other deferred credits and other long-term liabilities.

(10) The following tables detail the components of Other regulatory assets and liabilities. Other regulatory assets are included in either Prepaid and other current assets or Deferred charges and other assets on the Consolidated Balance Sheets (as indicated). Recovery periods vary. Other regulatory liabilities are included in either Other current liabilities or Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets (as indicated).

(Thousands of dollars)	December 31,	
	2019	2018
Other Regulatory Assets:		
State mandated public purpose programs (including low income and conservation programs) (a) (e)	\$ 9,172	\$ 6,253
Infrastructure replacement programs and similar (b) (e)	8,236	12,486
Environmental compliance programs (c) (e)	5,768	5,046
Other (d)	9,958	8,831
	<u>\$ 33,134</u>	<u>\$ 32,616</u>

a) Included in Prepaid and other current assets on the Consolidated Balance Sheets.

b) Included in Deferred charges and other assets on the Consolidated Balance Sheets.

c) In 2019, approximately \$5.0 million included in Prepaid and other current assets and \$782,000 included in Deferred charges and other assets on the Consolidated Balance Sheets. In 2018, approximately \$4.5 million included in Prepaid and other current assets and \$596,000 included in Deferred charges and other assets on the Consolidated Balance Sheets.

d) In 2019, \$1.6 million included in Prepaid and other current assets and \$8.3 million included in Deferred charges and other assets on the Consolidated Balance Sheets. In 2018, \$197,000 included in Prepaid and other current assets and \$8.6 million included in Deferred charges and other assets on the Consolidated Balance Sheets.

e) Balance recovered or refunded on an ongoing basis, generally with interest.

(Thousands of dollars)	December 31,	
	2019	2018
Other Regulatory Liabilities:		
State mandated public purpose programs (including low income and conservation programs) (a) (d)	\$ (308)	\$ (8,598)
Environmental compliance programs (d) (e)	(527)	—
Regulatory accounts for differences related to pension funding (b)	(2,476)	(3,221)
Other (c) (d)	(1,127)	(819)
	<u>\$ (4,438)</u>	<u>\$ (12,638)</u>

a) Included in Other current liabilities on the Consolidated Balance Sheets.

b) Included in Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets.

c) In 2019, \$(1.1) million included in Other current liabilities and \$(9,000) included in Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets. In 2018, approximately \$(810,000) included in Other current liabilities and \$(9,000) included in Other deferred credits and other long-term liabilities on the Consolidated Balance Sheets.

d) Balance recovered or refunded on an ongoing basis, generally with interest.

e) In 2019, included in Other current liabilities on the Consolidated Balance Sheet.

Note 6 - Other Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

The following information provides insight into amounts impacting the Company's Other comprehensive income (loss), both before and after-tax impacts, within the Consolidated Statements of Comprehensive Income, which also impact Accumulated other comprehensive income ("AOCI") in the Consolidated Balance Sheets and the Consolidated Statements of Equity.

Related Tax Effects Allocated to Each Component of Other Comprehensive Income (Loss)

(Thousands of dollars)	Year Ended December 31,								
	2019			2018			2017		
	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount
Defined benefit pension plans:									
Net actuarial gain/(loss)	\$ (71,087)	\$ 17,061	\$ (54,026)	\$ (20,426)	\$ 4,902	\$ (15,524)	\$ (43,027)	\$ 10,326	\$ (32,701)
Amortization of prior service cost	1,271	(305)	966	1,335	(320)	1,015	1,335	(507)	828
Amortization of net actuarial (gain)/loss	23,376	(5,610)	17,766	33,617	(8,068)	25,549	25,445	(9,669)	15,776
Prior service cost	(1,878)	452	(1,426)	—	—	—	—	—	—
Regulatory adjustment	36,944	(8,867)	28,077	(8,233)	1,976	(6,257)	12,340	250	12,590
Pension plans other comprehensive income (loss)	(11,374)	2,731	(8,643)	6,293	(1,510)	4,783	(3,907)	400	(3,507)
FSIRS (designated hedging activities):									
Amounts reclassified into net income	3,344	(803)	2,541	3,345	(804)	2,541	3,344	(1,271)	2,073
FSIRS other comprehensive income (loss)	3,344	(803)	2,541	3,345	(804)	2,541	3,344	(1,271)	2,073
Total other comprehensive income (loss) – Southwest Gas Corporation	(8,030)	1,928	(6,102)	9,638	(2,314)	7,324	(563)	(871)	(1,434)
Foreign currency translation adjustments:									
Translation adjustments	2,038	—	2,038	(3,010)	—	(3,010)	1,771	—	1,771
Foreign currency other comprehensive income (loss)	2,038	—	2,038	(3,010)	—	(3,010)	1,771	—	1,771
Total other comprehensive income (loss) – Southwest Gas Holdings, Inc.	\$ (5,992)	\$ 1,928	\$ (4,064)	\$ 6,628	\$ (2,314)	\$ 4,314	\$ 1,208	\$ (871)	\$ 337

(1) Tax amounts are calculated using a 24% rate following the December 22, 2017 enactment date of U.S. tax reform. For periods prior to the enactment date, tax amounts were calculated using a 38% rate. At December 31, 2017, excess taxes related to pre-tax amounts accumulating in AOCI prior to tax reform were required to remain in the account until the first quarter of 2018, when ASU 2018-02 was adopted, permitting previously stranded amounts to be released from AOCI and applied to Retained earnings. With regard to foreign currency translation adjustments, the Company has elected to indefinitely reinvest the earnings of Centuri's Canadian subsidiaries in Canada, thus preventing deferred taxes on such earnings. As a result of this assertion, and no repatriation of earnings anticipated, the Company is not recognizing a tax effect or presenting a tax expense or benefit for currency translation adjustments in Other comprehensive income (loss).

The estimated amounts that will be amortized from accumulated other comprehensive income or regulatory assets into net periodic benefit cost over the next year are summarized below:

(Thousands of dollars)	
Retirement plan net actuarial loss	\$ 36,000
SERP net actuarial loss	1,800
PBOP prior service cost	1,200

Approximately \$2.5 million of realized losses (net of tax) related to the FSIRS, included in AOCI at December 31, 2019, will be reclassified into interest expense within the next twelve months as the related interest payments on long-term debt occur.

The following table represents a rollforward of AOCI, presented on the Company's Consolidated Balance Sheets and its Consolidated Statements of Equity:

(Thousands of dollars)	Defined Benefit Plans			FSIRS			Foreign Currency Items			AOCI
	Before-Tax	Tax (Expense) Benefit (4,5)	After-Tax (5)	Before-Tax	Tax (Expense) Benefit (4,5)	After-Tax (5)	Before-Tax	Tax (Expense) Benefit	After-Tax	
Beginning Balance AOCI December 31, 2018	\$ (55,227)	\$ 13,254	\$ (41,973)	\$ (9,310)	\$ 2,234	\$ (7,076)	\$ (3,619)	\$ —	\$ (3,619)	\$ (52,668)
Net actuarial gain/(loss)	(71,087)	17,061	(54,026)	—	—	—	—	—	—	(54,026)
Translation adjustments	—	—	—	—	—	—	2,038	—	2,038	2,038
Other comprehensive income before reclassifications	(71,087)	17,061	(54,026)	—	—	—	2,038	—	2,038	(51,988)
FSIRS amounts reclassified from AOCI (1)	—	—	—	3,344	(803)	2,541	—	—	—	2,541
Amortization of prior service cost (2)	1,271	(305)	966	—	—	—	—	—	—	966
Amortization of net actuarial loss (2)	23,376	(5,610)	17,766	—	—	—	—	—	—	17,766
Prior service cost	(1,878)	452	(1,426)	—	—	—	—	—	—	(1,426)
Regulatory adjustment (3)	36,944	(8,867)	28,077	—	—	—	—	—	—	28,077
Net current period other comprehensive income (loss) attributable to Southwest Gas Holdings, Inc.	(11,374)	2,731	(8,643)	3,344	(803)	2,541	2,038	—	2,038	(4,064)
Ending Balance AOCI December 31, 2019	\$ (66,601)	\$ 15,985	\$ (50,616)	\$ (5,966)	\$ 1,431	\$ (4,535)	\$ (1,581)	\$ —	\$ (1,581)	\$ (56,732)

- (1) The FSIRS reclassification amounts are included in Net interest deductions on the Company's Consolidated Statements of Income.
- (2) These AOCI components are included in the computation of net periodic benefit cost (see **Note 11 - Pension and Other Postretirement Benefits** for additional details).
- (3) The regulatory adjustment represents the portion of the activity above that is expected to be recovered through rates in the future (the related regulatory asset is included in Deferred charges and other assets on the Company's Consolidated Balance Sheets).
- (4) Tax amounts are calculated using a 24% rate.
- (5) The beginning balances depict amounts attributable to the individual components of AOCI (Defined Benefit Plans and FSIRS) following the adoption of ASU No. 2018-02, with no impact to the total balance of AOCI resulting from the depiction.

The following table represents a rollforward of AOCI, presented on Southwest's Consolidated Balance Sheets:

(Thousands of dollars)	Defined Benefit Plans			FSIRS			AOCI
	Before-Tax	Tax (Expense) Benefit (9,10)	After-Tax (10)	Before-Tax	Tax (Expense) Benefit (9,10)	After-Tax (10)	
Beginning Balance AOCI December 31, 2018	\$ (55,227)	\$ 13,254	\$ (41,973)	\$ (9,310)	\$ 2,234	\$ (7,076)	\$ (49,049)
Net actuarial gain/(loss)	(71,087)	17,061	(54,026)	—	—	—	(54,026)
Other comprehensive loss before reclassifications	(71,087)	17,061	(54,026)	—	—	—	(54,026)
FSIRS amounts reclassified from AOCI (6)	—	—	—	3,344	(803)	2,541	2,541
Amortization of prior service cost (7)	1,271	(305)	966	—	—	—	966
Amortization of net actuarial loss (7)	23,376	(5,610)	17,766	—	—	—	17,766
Prior service cost	(1,878)	452	(1,426)	—	—	—	(1,426)
Regulatory adjustment (8)	36,944	(8,867)	28,077	—	—	—	28,077
Net current period other comprehensive income (loss) attributable to Southwest Gas Corporation	(11,374)	2,731	(8,643)	3,344	(803)	2,541	(6,102)
Ending Balance AOCI December 31, 2019	\$ (66,601)	\$ 15,985	\$ (50,616)	\$ (5,966)	\$ 1,431	\$ (4,535)	\$ (55,151)

- (6) The FSIRS reclassification amounts are included in Net interest deductions on Southwest's Consolidated Statements of Income.
- (7) These AOCI components are included in the computation of net periodic benefit cost (see **Note 11 - Pension and Other Postretirement Benefits** for additional details).
- (8) The regulatory adjustment represents the portion of the activity above that is expected to be recovered through rates in the future (the related regulatory asset is included in Deferred charges and other assets on Southwest's Consolidated Balance Sheets).
- (9) Tax amounts are calculated using a 24% rate.
- (10) The beginning balances depict amounts attributable to the individual components of AOCI (defined benefit plans and FSIRS) following the adoption of ASU No. 2018-02, with no impact to the total balance of AOCI resulting from the depiction.

The following table represents amounts (before income tax impacts) included in AOCI (in the tables above), that have not yet been recognized in net periodic benefit cost:

(Thousands of dollars)	Year Ended December 31,	
	2019	2018
Net actuarial loss	\$ (483,074)	\$ (435,364)
Prior service cost	(3,641)	(3,033)
Less: amount recognized in regulatory assets	420,114	383,170
Recognized in AOCI	\$ (66,601)	\$ (55,227)

See **Note 11 - Pension and Other Postretirement Benefits** for more information on the defined benefit pension plans and **Note 13 - Derivatives** for more information on the FSIRS.

Note 7 - Common Stock

Only shares of the Company's common stock are publicly traded on the New York Stock Exchange, under the ticker symbol "SWX." Share-based compensation related to Southwest and Centuri is based on awards to be issued in shares of Southwest Gas Holdings, Inc.

On May 8, 2019, the Company filed with the SEC an automatic shelf registration statement on Form S-3 (File No. 333-231297), which became effective upon filing, for the offer and sale of up to \$300 million of common stock from time to time in at-the-market offerings under the prospectus included therein and in accordance with the Sales Agency Agreement, dated May 8, 2019, between the Company and BNY Mellon Capital Markets, LLC (the "Equity Shelf Program"). The following table provides the activity in the Equity Shelf Program for the three-month and life-to-date periods ended December 31, 2019:

	Three Months Ended	Life-To-Date Ended
	December 31, 2019	
Gross proceeds	\$ 24,999,876	\$ 124,337,247
Less: agent commissions	(249,999)	(1,243,372)
Net proceeds	\$ 24,749,877	\$ 123,093,875
Number of shares sold	331,990	1,478,945
Weighted average price per share	\$ 75.30	\$ 84.07

As of December 31, 2019, the Company had up to \$175,662,753 of common stock available for future sale under the program. Net proceeds from the sale of shares of common stock under the Equity Shelf Programs are intended 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 served by Southwest. Net proceeds during the twelve months ended December 31, 2019 were contributed to, and reflected in the records of, Southwest (as a capital contribution from Southwest Gas Holdings, Inc.).

During the quarter ended March 31, 2019, the Company sold approximately 278,000 shares of common stock under a previously effective Equity Shelf Program at a weighted average price per share of \$83.05 for net proceeds of \$22,842,417. Those issuances reflected the remaining shares available under that previous program.

Aside from the equity shelf registrations, in December 2017, the Company and Southwest jointly filed with the SEC an automatic shelf registration statement (File No. 333-222047), or a "Universal Shelf," which became effective upon filing and includes a prospectus detailing the Company's ability to offer and sell, from time to time in amounts at prices and on terms that will be determined at the time of such offering, any combination of common stock, preferred stock, debt securities (which may or may not be guaranteed by one or more of its directly or indirectly wholly owned subsidiaries if indicated in the relevant prospectus supplement), guarantees of debt securities issued by Southwest, depository shares, warrants to purchase common stock, preferred stock or depository shares issued by the Company or debt securities issued by the Company or Southwest, units and rights. Additionally as part of the Universal Shelf, Southwest may offer and sell, from time to time in amounts at prices and on terms that will be determined at the time of such offering, any combination of debt securities (which may or may not be guaranteed by one or more of its directly or indirectly wholly owned subsidiaries if indicated in the relevant prospectus supplement) and guarantees of debt securities issued by the Company or by one or more of its directly or indirectly wholly owned subsidiaries if indicated in the relevant prospectus supplement.

During 2019, the Company issued approximately 77,000 shares of common stock through the Restricted Stock/Unit Plan, and Management Incentive Plan.

Additionally during 2019, the Company issued 147,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan (“DRSPP”), raising proceeds of approximately \$12 million.

As of December 31, 2019, there were 4.2 million shares of common stock registered and available for issuance under the provisions of the various stock issuance plans, which does not include the amount of common stock available that is separately disclosed with respect to the Equity Shelf Program above.

On September 20, 2019, in connection with the reincorporation into Delaware, the Company increased the number of authorized shares of common stock available for issuance from 60,000,000 to 120,000,000.

Note 8 - Debt

Long-Term Debt

Long-term debt is recognized in the Company’s and Southwest’s Consolidated Balance Sheets generally at the carrying value of the obligations outstanding. However, details surrounding the fair value and individual carrying values of instruments are discussed below or provided in the table that follows.

The fair values of Southwest’s revolving credit facility (including commercial paper) and the variable-rate Industrial Development Revenue Bonds (“IDRBs”) approximate their carrying values. The fair values of the revolving credit facility and IDRBs are categorized as Level 1 based on the FASB’s fair value hierarchy, due to Southwest’s ability to access similar debt arrangements at measurement dates with comparable terms, including variable/market rates. Additionally, the borrowings by Southwest on the revolving credit facility are generally repaid quickly and the IDRBs have interest rates that reset frequently.

The fair values of Southwest’s debentures (which include senior and medium-term Notes) were determined utilizing a market-based valuation approach, where fair values are determined based on evaluated pricing data, such as broker quotes and yields for similar securities adjusted for observable differences. Significant inputs used in the valuation generally include benchmark yield curves, credit ratings, and issuer spreads. The external credit rating, coupon rate, and maturity of each security are considered in the valuation, as applicable. The fair values of debentures are categorized as Level 2 in the hierarchy.

The Centuri secured revolving credit and term loan facility and Centuri’s other debt obligations (not actively traded) are categorized as Level 3. Because Centuri’s debt is not publicly traded, fair values for the secured revolving credit and term loan facility and its other debt obligations were based on a conventional discounted cash flow methodology and utilizing current market pricing yield curves, across Centuri’s debt maturity spectrum, of other industrial bonds with an assumed credit rating comparable to the Company’s.

Carrying amounts of long-term debt and related estimated fair values as of December 31, 2019 and 2018 are disclosed in the following table. The fair value hierarchy is described in **Note 1 - Background, Organization, and Summary of Significant Accounting Policies**.

	December 31,			
	2019		2018	
	Carrying Amount	Market Value	Carrying Amount	Market Value
(Thousands of dollars)				
Southwest Gas Corporation:				
Debtures:				
Notes, 4.45%, due 2020	\$ 125,000	\$ 126,673	\$ 125,000	\$ 126,213
Notes, 6.1%, due 2041	125,000	162,666	125,000	150,728
Notes, 3.875%, due 2022	250,000	258,550	250,000	254,195
Notes, 4.875%, due 2043	250,000	291,928	250,000	268,985
Notes, 3.8%, due 2046	300,000	308,307	300,000	267,030
Notes, 3.7%, due 2028	300,000	320,685	300,000	298,926
Notes, 4.15%, due 2049	300,000	330,138	—	—
8% Series, due 2026	75,000	96,905	75,000	93,827
Medium-term notes, 7.78% series, due 2022	25,000	27,500	25,000	27,497
Medium-term notes, 7.92% series, due 2027	25,000	32,543	25,000	30,016
Medium-term notes, 6.76% series, due 2027	7,500	9,156	7,500	8,651
Unamortized discount and debt issuance costs	(14,450)		(11,807)	
	<u>1,768,050</u>		<u>1,470,693</u>	
Revolving credit facility and commercial paper	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>
Industrial development revenue bonds:				
Variable-rate bonds:				
Tax-exempt Series A, due 2028	50,000	50,000	50,000	50,000
2003 Series A, due 2038	50,000	50,000	50,000	50,000
2008 Series A, due 2038	50,000	50,000	50,000	50,000
2009 Series A, due 2039	50,000	50,000	50,000	50,000
Unamortized discount and debt issuance costs	(1,717)		(2,024)	
	<u>198,283</u>		<u>197,976</u>	
Less: current maturities	<u>(125,000)</u>		<u>—</u>	
Long-term debt, less current maturities – Southwest Gas Corporation	<u>\$ 1,991,333</u>		<u>\$ 1,818,669</u>	
Centuri:				
Centuri term loan facility	\$ 244,812	252,182	\$ 255,959	260,135
Unamortized debt issuance costs	(1,101)		(1,414)	
	<u>243,711</u>		<u>254,545</u>	
Centuri secured revolving credit facility	60,021	60,057	—	—
Centuri other debt obligations	43,929	44,787	67,104	67,053
Less: current maturities	<u>(38,512)</u>		<u>(33,060)</u>	
Long-term debt, less current maturities – Centuri	<u>\$ 309,149</u>		<u>\$ 288,589</u>	
Consolidated Southwest Gas Holdings, Inc.:				
Southwest Gas Corporation long-term debt	\$ 2,116,333		\$ 1,818,669	
Centuri long-term debt	347,661		321,649	
Less: current maturities	<u>(163,512)</u>		<u>(33,060)</u>	
Long-term debt, less current maturities – Southwest Gas Holdings, Inc.	<u>\$ 2,300,482</u>		<u>\$ 2,107,258</u>	

Southwest has a \$400 million credit facility which expires in March 2022. Southwest designates \$150 million of capacity related to the facility as long-term debt and has designated the remaining \$250 million for working capital purposes. Interest rates for the credit facility are calculated at either the London Interbank Offered Rate (“LIBOR”) or an “alternate base rate,” plus in each case

an applicable margin that is determined based on Southwest's senior unsecured debt rating. At December 31, 2019, the applicable margin is 1% for loans bearing interest with reference to LIBOR and 0% for loans bearing interest with reference to the alternative base rate. Southwest is also required to pay a commitment fee, of 0.10% per annum, on the unfunded portion of the commitments, which was not significant for the year ended December 31, 2019. At December 31, 2019, \$150 million was outstanding on the long-term portion (including \$50 million under the commercial paper program discussed below). The effective interest rate on the long-term portion of the credit facility was 2.57% at December 31, 2019. Borrowings under the credit facility ranged from \$44 million during the third quarter of 2019 to a high of \$366 million during the second quarter of 2019.

Southwest has a \$50 million commercial paper program. Any issuance under the commercial paper program is supported by Southwest's current revolving credit facility and, therefore, does not represent additional borrowing capacity. Any borrowing under the commercial paper program will be designated as long-term debt. Interest rates for the program are calculated at the then current commercial paper rate. At December 31, 2019, and as noted above, \$50 million was outstanding under the commercial paper program.

In May 2019, Southwest issued \$300 million in 4.15% Senior Notes at a discount of 0.051%. The Notes will mature in June 2049. The proceeds were used to repay a portion of amounts then outstanding under its credit facility and commercial paper program.

In November 2018, Centuri, in association with the acquisition of Linetec (refer to **Note 17 - Business Acquisitions**), amended and restated its senior secured revolving credit and term loan facility, increasing the borrowing capacity from \$450 million to \$590 million; the amended facility is scheduled to expire in November 2023. This facility includes a revolving credit facility and a term loan facility. The line of credit portion of the facility is \$325 million; amounts borrowed and repaid under the revolving line of credit facility are available to be re-borrowed. The term loan facility portion has a limit of approximately \$265 million. The \$590 million revolving credit and term loan facility is secured by substantially all of Centuri's assets except those explicitly excluded under the terms of the agreement (including owned real estate and certain certificated vehicles). Centuri assets securing the facility at December 31, 2019 totaled \$1.3 billion. At December 31, 2019, \$305 million in borrowings were outstanding under Centuri's combined secured revolving credit and term loan facility.

Interest rates for Centuri's \$590 million secured revolving credit and term loan facility are calculated at LIBOR, the Canadian Dealer Offered Rate ("CDOR"), or an alternate base rate or Canadian base rate, plus in each case an applicable margin that is determined based on Centuri's consolidated leverage ratio. The applicable margin ranges from 0.875% to 2.25% for loans bearing interest with reference to LIBOR or CDOR and from 0.00% to 1.25% for loans bearing interest with reference to the alternate base rate or Canadian base rate. Centuri is also required to pay a commitment fee on the unfunded portion of the commitments based on their consolidated leverage ratio. The commitment fee ranges from 0.125% to 0.35% per annum. Borrowings under the secured revolving credit facility ranged from a low of \$6 million during the first quarter of 2019 to a high of \$99 million during the third quarter of 2019.

All amounts outstanding are considered long-term borrowings. The effective interest rate on the secured revolving credit and term loan facility was 3.2% at December 31, 2019.

It is currently anticipated that LIBOR may be discontinued as a benchmark or reference rate after 2021. As of December 31, 2019, \$17 million of borrowings were outstanding for the holding company under its credit facility, \$294 million of Southwest's outstanding borrowings under its credit facility (other than from its commercial paper program), and \$188 million of Centuri's outstanding borrowings under its credit facility have interest rates with reference to LIBOR and maturity dates that extend beyond 2021. The outstanding amounts reflect approximately 13% of Southwest's total debt and 19% of total debt (including current maturities) for the Company overall. In order to mitigate the impact of the discontinuation on the Company's financial condition and results of operations, Southwest and Centuri will continue to monitor developments with respect to alternative rates and work with lenders to determine the appropriate alternative reference rate for variable rate indebtedness. However, at this time the Company and Southwest can provide no assurances as to the impact a LIBOR discontinuation will have on their financial condition or results of operations. Any alternative rate may be less predictable or less attractive than LIBOR.

The effective interest rates on Southwest's variable-rate IDRBs are included in the table below:

	December 31,	
	2019	2018
2003 Series A	2.51%	2.61%
2008 Series A	2.46%	2.52%
2009 Series A	2.37%	2.51%
Tax-exempt Series A	2.32%	2.53%

In Nevada, interest fluctuations due to changing interest rates on Southwest's 2003 Series A, 2008 Series A, and 2009 Series A variable-rate IDRBs are tracked and recovered from customers through a variable interest expense recovery mechanism.

None of Southwest's debt instruments have credit triggers or other clauses that result in default if bond ratings are lowered by rating agencies. Interest and fees on certain debt instruments are subject to adjustment depending on Southwest's bond ratings. Certain debt instruments are subject to a leverage ratio cap and the 6.1% Notes due 2041 are also subject to a minimum net worth requirement. At December 31, 2019, Southwest was in compliance with all of its covenants. Under the most restrictive of the financial covenants, approximately \$2.4 billion in additional debt could be issued while still meeting the leverage ratio requirement. Relating to the minimum net worth requirement, as of December 31, 2019, there is at least \$1.5 billion of cushion in equity. No specific dividend restrictions exist under the collective covenants. None of the debt instruments contain material adverse change clauses.

Certain Centuri debt instruments have leverage ratio caps and fixed charge ratio coverage requirements. At December 31, 2019, Centuri was in compliance with all of its covenants. Under the most restrictive of the covenants, Centuri could issue over \$184 million in additional debt and meet the leverage ratio requirement. Centuri has at least \$53 million of cushion relating to the minimum fixed charge ratio coverage requirement. Centuri's revolving credit and term loan facility is secured by underlying assets of the utility infrastructure services segment. Centuri's covenants limit its ability to provide cash dividends to Southwest Gas Holdings, Inc., its parent. The dividend restriction is equal to a maximum of 60% of its rolling twelve-month consolidated net income.

Estimated maturities of long-term debt for the next five years are:

(Thousands of dollars)		Southwest		Centuri		Total
	2020	\$ 125,000	\$	38,512	\$	163,512
	2021	—		33,785		33,785
	2022	425,000		35,783		460,783
	2023	—		240,681		240,681
	2024	—		—		—

Short-Term Debt

In March 2017, Southwest Gas Holdings, Inc. entered into a credit facility with a borrowing capacity of \$100 million that expires in March 2022. The Company utilizes this facility for short-term financing needs. Interest rates for this facility are calculated at either LIBOR or the "alternate base rate," plus in each case an applicable margin that is determined based on the Company's senior unsecured debt rating. At December 31, 2019, the applicable margin is 1.125% for loans bearing interest with reference to LIBOR and 0.125% for loans bearing interest with reference to the alternative base rate. The Company is also required to pay a commitment fee, of 0.15% per annum, on the unfunded portion of the commitments, which was not significant for the period ended December 31, 2019. Borrowings under the credit facility ranged from none at various times throughout 2019 to a high of \$17 million during the fourth quarter of 2019. At December 31, 2019, there was \$17 million outstanding under this facility with a weighted average interest rate of 2.749%. There were no borrowings outstanding under this facility at December 31, 2018.

At December 31, 2019, Southwest Holdings, Inc. was in compliance with all of its credit facility covenants. Interest and fees on the credit facility are subject to adjustment depending on its bond ratings. The credit facility is subject to a leverage ratio cap. No specific dividend restrictions exist under the collective covenants. The credit facility does not contain a material adverse change clause.

As indicated above, Southwest has a \$400 million credit facility that is scheduled to expire in March 2022, of which \$250 million has been designated by management for working capital purposes. Southwest had \$194 million and \$152 million of short-term borrowings outstanding with weighted average interest rates of 2.61% and 3.47%, at December 31, 2019 and 2018, respectively.

Note 9 - Share-Based Compensation

At December 31, 2019, three share-based compensation plans existed at Southwest: an omnibus incentive plan, a restricted stock/unit plan, and a management incentive plan. The table below shows total share-based plan compensation expense which was recognized in the Consolidated Statements of Income:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Share-based compensation plan expense, net of related tax benefits	\$ 5,154	\$ 4,644	\$ 6,751
Share-based compensation plan related tax benefits	1,627	1,467	4,137

Omnibus Incentive Plan

The omnibus incentive plan is used to promote the long-term growth and profitability of the Company by providing directors, employees, and certain other individuals with incentives to increase stockholder value and otherwise contribute to the success of the Company. In addition, the plan enables the Company to attract, retain, and reward the best available persons for positions of responsibility. The omnibus incentive plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other equity-based and cash awards. Employees, directors, and consultants who provide services to the Company or any subsidiary may be eligible under this plan. For grants under the omnibus incentive plan, directors continue to immediately vest in the shares upon grant but are provided the option to defer receipt of equity compensation until they leave the Board of Directors.

Performance-based incentive opportunities under the omnibus plan were granted to all officers of Southwest in the form of performance shares and will be based on, depending on the officer, consolidated earnings per share, utility net income, and utility return on equity, with an adjustment based on relative total shareholder return, in each case, measured over a three-year performance period. Southwest recorded \$2.3 million, \$2.1 million, and \$1.2 million of estimated compensation expense associated with these shares during 2019, 2018, and 2017, respectively.

Restricted Stock/Unit Plan

Restricted stock/units under the restricted stock/unit plan were issued to attract, motivate, retain, and reward key employees of Southwest with an incentive to attain high levels of individual performance and improved financial performance. The restricted stock/units vest 40% at the end of year one and 30% at the end of years two and three and were issued annually as common stock in accordance with the percentage vested. The restricted stock/unit plan was also established to attract, motivate, and retain experienced and knowledgeable independent directors. Vesting for grants of restricted stock/units to directors occurred immediately upon grant. The issuance of common stock for directors occurred when their service on the Board ended. No new grants are made under the legacy restricted stock/unit plan as all future incentive compensation, including restricted stock, is granted under programs of the omnibus incentive plan, which subject to advance election, provides that issuance to directors may occur upon grant. With regard to management, grants of time-lapse restricted stock vested based on the same percentages indicated above under the legacy program. Grants of restricted stock during 2019 occurred under the omnibus incentive plan.

Management Incentive Plan

Under the management incentive plan, awards were historically granted to encourage key employees of Southwest to remain as employees and to achieve short-term and long-term performance goals. Plan participants were eligible to receive a cash bonus (i.e., short-term incentive) and shares (i.e., long-term incentive). The shares granted vested three years after grant and were then issued as common stock. No new share grants are made under the management incentive plan as all future incentive share compensation is granted under the omnibus incentive plan. There have been no shares granted under the management incentive plan since 2017.

The following table summarizes the activity of the management incentive plan shares and restricted stock/units as of December 31, 2019 (thousands of shares):

	Management Incentive Plan Shares	Weighted- average grant date fair value	Restricted Stock/ Units (1)	Weighted- average grant date fair value
Nonvested/unissued at December 31, 2018	65	\$ 66.51	323	\$ 56.16
Granted	—		108	81.75
Dividends	1		7	
Forfeited or expired	—	—	(9)	77.80
Vested and issued (2)	(37)	55.31	(64)	63.21
Nonvested/unissued at December 31, 2019	<u>29</u>	\$ 79.16	<u>365</u>	\$ 60.94

(1) The number of securities granted includes 57,500 performance shares, which was derived by assuming that target performance will be achieved during the relevant performance period.

(2) Includes shares for retiree payouts and those converted for taxes.

The weighted average grant date fair value shares in 2017 was \$85.44. The weighted average grant date fair value of restricted stock/units granted in 2018 and 2017 was \$69.16 and \$85.39, respectively.

As of December 31, 2019, total compensation cost related to nonvested restricted stock/units not yet recognized is \$3.6 million, which is expected to be recognized over a weighted average period of 1.7 years.

Note 10 - Commitments and Contingencies

The Company and Southwest are defendants in miscellaneous legal proceedings. The Company and Southwest are also parties to various regulatory proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that no litigation or regulatory proceeding to which the Company and Southwest are currently subject to will have a material adverse impact on their financial position, results of operations, or cash flows.

Southwest maintains liability insurance for various risks associated with the operation of its natural gas pipelines and facilities. In connection with these liability insurance policies, Southwest is 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 2019 to July 2020, these liability insurance policies require Southwest to be responsible for the first \$1 million (self-insured retention) of each incident plus the first \$4 million in aggregate claims above its self-insured retention in the policy year. Through an assessment process, Southwest may determine that certain costs are likely to be incurred in the future related to specific legal matters. In these circumstances and in accordance with accounting policies, Southwest will make an accrual, as necessary.

Centuri maintains liability insurance for various risks associated with its operations. In connection with these liability insurance policies, Centuri is responsible for an initial deductible or self-insured retention amount per occurrence, after which the insurance carriers would be responsible for amounts up to the policy limits. For the policy year April 2019 to March 2020, Centuri is responsible for the first \$400,000 (self-insured retention) per occurrence under these liability insurance policies.

Note 11 - Pension and Other Postretirement Benefits

Southwest Gas Corporation

Employees' Investment Plan

An Employees' Investment Plan ("EIP") is offered to eligible employees of Southwest through deduction of a percentage of base compensation, subject to IRS limitations. The EIP provides for purchases of various mutual fund investments and Company common stock. One-half of amounts deferred by employees are matched, up to a maximum matching contribution of 3.5% of an employee's annual compensation. There are no employer matching contributions for officer deferrals into the EIP. The cost of the plan was \$5.7 million, \$5.5 million, and \$5.1 million for 2019, 2018, and 2017, respectively.

Deferred Compensation Plan

A deferred compensation plan is offered to all officers of Southwest and a separate deferred compensation plan is offered to members of the Company's Board of Directors. The plans provide the opportunity to defer up to 100% of annual cash compensation. One-half of amounts deferred by officers are matched, up to a maximum matching contribution of 3.5% of an officer's annual base salary. Upon retirement, payments of compensation deferred, plus interest, are made in equal monthly installments over 10, 15, or 20 years, as elected by the participant. Directors have an additional option to receive such payments over a five-year period. Deferred compensation earns interest at a rate determined each January. The interest rate equals 150% of Moody's Seasoned Corporate Bond Rate Index.

Pension and Postretirement Plans

A noncontributory qualified retirement plan with defined benefits covering substantially all Southwest employees is available in addition to a separate unfunded supplemental executive retirement plan ("SERP"), which is limited to Southwest's officers. Postretirement benefits other than pensions ("PBOP") are provided to qualified retirees for health care, dental, and life insurance benefits.

The overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, are recognized in the Consolidated Balance Sheets. Any actuarial gains and losses, prior service costs and transition assets or obligations are recognized in Accumulated other comprehensive income under Stockholders' equity, net of tax, until they are amortized as a component of net periodic benefit cost.

A regulatory asset has been established for the portion of the total amounts otherwise chargeable to Accumulated other comprehensive income that are expected to be recovered through rates in future periods. Changes in actuarial gains and losses and prior service costs pertaining to the regulatory asset will be recognized as an adjustment to the regulatory asset account as these amounts are amortized and recognized as components of net periodic pension costs each year.

The qualified retirement plan invests the majority of its plan assets in common collective trusts which include a well-diversified portfolio of domestic and international equity securities and fixed income securities, which are managed by a professional investment manager appointed by Southwest. The investment manager has full discretionary authority to direct the investment of plan assets held in trust within the specific guidelines prescribed by Southwest through the plan's investment policy statement. In 2016, Southwest adopted a liability driven investment ("LDI") strategy for part of the portfolio, a form of investing designed to better match the movement in pension plan assets with the impact of interest rate changes and inflation assumption changes on

the pension plan liability. The implementation of the LDI strategy will be phased in over time by using a glide path. The glide path is designed to increase the allocation of the plan's assets to fixed income securities, as the funded status of the plan increases, in order to more closely match the duration of the plan assets to that of the plan liability. Pension plan assets are held in a Master Trust. The pension plan funding policy is in compliance with the federal government's funding requirements.

Pension costs for these plans are affected by the amount and timing of cash contributions to the plans, the return on plan assets, discount rates, and by employee demographics, including age, compensation, and length of service. Changes made to the provisions of the plans may also impact current and future pension costs. Actuarial formulas are used in the determination of pension costs and are affected by actual plan experience and assumptions about future experience. Key actuarial assumptions include the expected return on plan assets, the discount rate used in determining the projected benefit obligation and pension costs, and the assumed rate of increase in employee compensation. Relatively small changes in these assumptions, particularly the discount rate, may significantly affect pension costs and plan obligations for the qualified retirement plan. In determining the discount rate, management matches the plan's projected cash flows to a spot-rate yield curve based on highly rated corporate bonds. Changes to the discount rate from year-to-year, if any, are generally made in increments of 25 basis points.

Due to an historically low interest rate environment, there was a 100 basis points decrease in the discount rate between years, as reflected below. This resulted in a deterioration in the funded status of the qualified retirement plan as of December 31, 2019. The methodology utilized to determine the discount rate was consistent with prior years. The weighted-average rate of compensation increase remained the same (consistent with management's expectations overall). The asset return assumption (which impacts the following year's expense) was reduced by 25 basis points. The rates are presented in the table below:

	December 31,	
	2019	2018
Discount rate	3.50%	4.50%
Weighted-average rate of compensation increase	3.25%	3.25%
Asset return assumption	6.75%	7.00%

Future years' expense level movements (up or down) will continue to be greatly influenced by long-term interest rates, asset returns, and funding levels.

The following table sets forth the retirement plan, SERP, and PBOP funded statuses and amounts recognized on the Consolidated Balance Sheets and Consolidated Statements of Income.

(Thousands of dollars)	Year Ended December 31,					
	2019			2018		
	Qualified Retirement Plan	SERP	PBOP	Qualified Retirement Plan	SERP	PBOP
Change in benefit obligations:						
Benefit obligation for service rendered to date at beginning of year (PBO/PBO/APBO)	\$ 1,116,014	\$ 40,603	\$ 69,956	\$ 1,203,484	\$ 45,727	\$ 75,322
Service cost	25,864	266	1,276	28,555	245	1,473
Interest cost	49,006	1,760	3,046	44,174	1,658	2,748
Plan amendments	—	—	1,878	—	—	—
Actuarial loss (gain)	192,416	7,974	3,156	(102,919)	(3,940)	(6,020)
Benefits paid	(53,723)	(3,206)	(3,201)	(57,280)	(3,087)	(3,567)
Benefit obligation at end of year (PBO/PBO/APBO)	<u>1,329,577</u>	<u>47,397</u>	<u>76,111</u>	<u>1,116,014</u>	<u>40,603</u>	<u>69,956</u>
Change in plan assets:						
Market value of plan assets at beginning of year	790,614	—	47,341	871,665	—	54,608
Actual return on plan assets	186,102	—	9,757	(67,771)	—	(3,061)
Employer contributions	52,000	3,206	—	44,000	3,087	—
Benefits paid	(53,723)	(3,206)	(4,260)	(57,280)	(3,087)	(4,206)
Market value of plan assets at end of year	<u>974,993</u>	<u>—</u>	<u>52,838</u>	<u>790,614</u>	<u>—</u>	<u>47,341</u>
Funded status at year end	<u>\$ (354,584)</u>	<u>\$ (47,397)</u>	<u>\$ (23,273)</u>	<u>\$ (325,400)</u>	<u>\$ (40,603)</u>	<u>\$ (22,615)</u>
Weighted-average assumptions (benefit obligation):						
Discount rate	3.50%	3.50%	3.50%	4.50%	4.50%	4.50%
Weighted-average rate of compensation increase	3.25%	3.25%	N/A	3.25%	3.25%	N/A

Estimated funding for the plans above during calendar year 2020 is approximately \$105 million, of which \$102 million pertains to the retirement plan, and which includes a supplemental discretionary contribution of \$50 million in January 2020. Management monitors plan assets and liabilities and may, at its discretion, increase plan funding levels above the minimum in order to achieve a desired funded status and avoid or minimize potential benefit restrictions. As a result of the impact of the historically low discount rate at December 31, 2019, Southwest, through a capital contribution from Southwest Gas Holdings, Inc., made the discretionary supplemental contribution in January 2020. This additional contribution is intended to mitigate the impacts on the funded status and the increase in 2020 pension costs through the ability to provide returns on the increased level of plan investments.

The accumulated benefit obligation for the retirement plan and the SERP is presented below:

(Thousands of dollars)	December 31,	
	2019	2018
Retirement plan	\$ 1,219,989	\$ 1,024,030
SERP	46,067	38,793

Benefits expected to be paid for pension, SERP, and PBOP over the next 10 years are as follows:

(Millions of dollars)	2020	2021	2022	2023	2024	2025-2029
Pension	\$ 56.0	\$ 58.0	\$ 59.0	\$ 60.0	\$ 61.0	\$ 331.0
SERP	3.1	3.1	3.1	3.1	3.1	14.8
PBOP	4.9	4.9	4.9	4.9	4.8	22.5

No assurance can be made that actual funding and benefits paid will match these estimates.

For PBOP measurement purposes, the per capita cost of the covered health care benefits medical rate trend assumption is 6.0%, declining to 4.5%. Fixed contributions are made for health care benefits of employees who retire after 1988, but Southwest pays all covered health care costs for employees who retired prior to 1989. The medical trend rate assumption noted above applies to the benefit obligations of pre-1989 retirees only.

As of January 1, 2018, the Company adopted "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The update required that an employer report the service cost component of total net periodic benefit costs in the same line item(s) as other compensation costs arising from services rendered by the employees during the period, and required that the other components of net benefit cost be presented in the income statement separately from the service cost component and outside a subtotal of income from operations (and be appropriately described). The update also allowed only the service cost component (and not the other components of periodic benefit costs) to be eligible for capitalization when applicable. The guidance was applied on a retrospective basis, as required, for the presentation of the service cost and other components of net benefit cost, and on a prospective basis for the capitalization of only the service cost component.

Therefore, upon adoption of the update to Topic 715, amounts presented in the Company's and Southwest's Consolidated Statements of Income for the year ended 2017 were revised in financial information that presents 2017 as a comparative period, as follows:

(Thousands of dollars)	Year Ended December 31,		
	2017		
	Originally Reported	Reclassification	Revised
Southwest Gas Holdings, Inc.			
Operations and maintenance	\$ 412,187	\$ (19,424)	\$ 392,763
Other income (deductions)	13,394	(19,424)	(6,030)
Southwest Gas Corporation			
Operations and maintenance	\$ 410,745	\$ (19,424)	\$ 391,321
Other income (deductions)	13,036	(19,424)	(6,388)

Operating income increased by the same amounts that Operations and maintenance expense decreased, as reflected in the table above; however, net income was not impacted overall by this reclassification for either the Company or Southwest.

The service cost component of net periodic benefit costs included in the table below is part of an overhead loading process associated with the cost of labor. The overhead process ultimately results in allocation of that portion of overall net periodic benefit costs to

the same accounts to which productive labor is charged. As a result, service costs become components of various accounts, primarily Operations and maintenance expense, Net utility plant, and Deferred charges and other assets for both the Company and Southwest. The other components of net periodic benefit cost are reflected in Other income (deductions) on the Condensed Consolidated Statements of Income of each entity. Refer to the discussion above regarding the practical expedient elected related to amounts capitalized as part of assets prior to the adoption date.

Components of net periodic benefit cost:

(Thousands of dollars)	Qualified Retirement Plan			SERP			PBOP		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Service cost	\$ 25,864	\$ 28,555	\$ 23,392	\$ 266	\$ 245	\$ 309	\$ 1,276	\$ 1,473	\$ 1,468
Interest cost	49,006	44,174	46,083	1,760	1,658	1,883	3,046	2,748	3,232
Expected return on plan assets	(60,244)	(58,755)	(55,196)	—	—	—	(3,156)	(3,718)	(3,358)
Amortization of prior service cost	—	—	—	—	—	—	1,271	1,335	1,335
Amortization of net actuarial loss	22,356	32,115	24,004	1,020	1,502	1,441	—	—	—
Net periodic benefit cost	\$ 36,982	\$ 46,089	\$ 38,283	\$ 3,046	\$ 3,405	\$ 3,633	\$ 2,437	\$ 1,838	\$ 2,677
Weighted-average assumptions (net benefit cost)									
Discount rate	4.50%	3.75%	4.50%	4.50%	3.75%	4.50%	4.50%	3.75%	4.50%
Expected return on plan assets	7.00%	7.00%	7.00%	N/A	N/A	N/A	7.00%	7.00%	7.00%
Weighted-average rate of compensation increase	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	N/A	N/A	N/A

Other Changes in Plan Assets and Benefit Obligations Recognized in Net Periodic Benefit Cost and Other Comprehensive Income

(Thousands of dollars)	Year Ended December 31,											
	2019				2018				2017			
	Total	Qualified Retirement Plan	SERP	PBOP	Total	Qualified Retirement Plan	SERP	PBOP	Total	Qualified Retirement Plan	SERP	PBOP
Net actuarial loss (gain) (a)	\$ 71,087	\$ 66,557	\$ 7,975	\$ (3,445)	\$ 20,426	\$ 23,607	\$ (3,940)	\$ 759	\$ 43,027	\$ 44,149	\$ 3,334	\$ (4,456)
Amortization of prior service cost (b)	(1,271)	—	—	(1,271)	(1,335)	—	—	(1,335)	(1,335)	—	—	(1,335)
Amortization of net actuarial loss (b)	(23,376)	(22,356)	(1,020)	—	(33,617)	(32,115)	(1,502)	—	(25,445)	(24,004)	(1,441)	—
Prior service cost	1,878	—	—	1,878	—	—	—	—	—	—	—	—
Regulatory adjustment	(36,944)	(39,782)	—	2,838	8,233	7,657	—	576	(12,340)	(18,131)	—	5,791
Recognized in other comprehensive (income) loss	11,374	4,419	6,955	—	(6,293)	(851)	(5,442)	—	3,907	2,014	1,893	—
Net periodic benefit costs recognized in net income	42,465	36,982	3,046	2,437	51,332	46,089	3,405	1,838	44,593	38,283	3,633	2,677
Total of amount recognized in net periodic benefit cost and other comprehensive (income) loss	\$ 53,839	\$ 41,401	\$ 10,001	\$ 2,437	\$ 45,039	\$ 45,238	\$ (2,037)	\$ 1,838	\$ 48,500	\$ 40,297	\$ 5,526	\$ 2,677

The table above discloses the net gain or loss and prior service cost recognized in Other comprehensive income, separated into (a) amounts initially recognized in Other comprehensive income, and (b) amounts subsequently recognized as adjustments to Other comprehensive income as those amounts are amortized as components of net periodic benefit cost. See also **Note 6 - Other Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")**.

The following table sets forth, by level within the three-level fair value hierarchy, the fair values of the assets of the qualified pension plan and the PBOP as of December 31, 2019 and 2018. The SERP has no assets.

(Thousands of dollars)	December 31,					
	2019			2018		
	Qualified Retirement Plan	PBOP	Total	Qualified Retirement Plan	PBOP	Total
Assets at fair value:						
Level 1 – Quoted prices in active markets for identical financial assets						
Mutual funds	\$ —	\$ 29,188	\$ 29,188	\$ —	\$ 25,299	\$ 25,299
Total Level 1 Assets (1)	\$ —	\$ 29,188	\$ 29,188	\$ —	\$ 25,299	\$ 25,299
Level 2 – Significant other observable inputs						
Private commingled equity funds (2)						
Global	\$ 266,908	\$ 6,338	\$ 273,246	\$ 215,280	\$ 5,896	\$ 221,176
International	117,086	2,780	119,866	94,465	2,588	97,053
U.S. equity securities	184,642	4,386	189,028	147,693	4,045	151,738
Emerging markets	62,943	1,494	64,437	50,817	1,392	52,209
Private commingled fixed income funds (3)	335,138	7,959	343,097	274,062	7,506	281,568
Pooled funds and mutual funds	5,359	689	6,048	5,198	610	5,808
Government fixed income and mortgage backed securities	181	4	185	163	5	168
Total Level 2 assets (4)	\$ 972,257	\$ 23,650	\$ 995,907	\$ 787,678	\$ 22,042	\$ 809,720
Total Plan assets at fair value	\$ 972,257	\$ 52,838	\$ 1,025,095	\$ 787,678	\$ 47,341	\$ 835,019
Insurance company general account contracts (5)	2,736	—	2,736	2,936	—	2,936
Total Plan assets	\$ 974,993	\$ 52,838	\$ 1,027,831	\$ 790,614	\$ 47,341	\$ 837,955

(1) The Mutual funds category above is a balanced fund that invests in a diversified portfolio of common stocks, preferred stocks, and fixed-income securities. Under normal circumstances the balanced fund will hold no more than 75%, and no less than 25%, of its total assets in equity securities. The fund seeks regular income, conservation of principal, and an opportunity for long-term growth of principal and income.

(2) The private commingled equity funds include common collective trusts that invest in a diversified portfolio of securities regularly traded on securities exchanges. These funds are shown in the above table at net asset value (“NAV”), which is the value of securities in the fund less the amount of any liabilities outstanding. Strategies employed by the funds include investment in:

- Global equities, including domestic equities
- International developed countries equities
- Domestic equities
- Emerging markets equities

Shares in the private commingled equity funds may be redeemed given one business day notice. While they are private equity funds and reported at NAV, due to the short redemption notice period, the lack of redemption fees, the fact that the underlying investments are exchange-traded, and that substantial liabilities do not exist subject to the NAV calculation, these investments are viewed as indirectly observable (Level 2) in the fair value hierarchy and are therefore not excluded from the body of the fair value table as a reconciling item.

The global fund provides diversified exposure to global equity markets. The fund seeks to provide long-term capital growth by investing primarily in securities listed on the major developed equity markets of the U.S., Europe, and Asia, as well as within those listed on emerging country equity markets on a tactical basis.

The international fund invests in international financial markets, primarily those of developed economies in Europe and the Pacific Basin. The fund invests primarily in equity securities issued by foreign corporations, but may invest in other securities perceived as offering attractive investment return opportunities.

The domestic equities securities funds include a large and medium capitalization fund and a small capitalization fund. The large and medium capitalization fund is designed to track the performance of the large and medium capitalization companies contained in the index, which represents approximately 90% of the market capitalization of the U.S. stock market. The small capitalization fund is designed to provide maximum long-term appreciation through investments that are well diversified by industry.

The emerging markets fund was developed to invest in emerging market equities worldwide. The purposes of the fund’s operations, “emerging market countries,” include every country in the world except the developed markets of the U.S., Canada, Japan, Australia, New Zealand, Hong Kong, and Singapore, and most countries located in Western Europe. Fund investments are made directly in each country or, where direct investment is inefficient or prohibited, through appropriate financial instruments or participation in commingled funds.

(3) The private commingled fixed income funds consist primarily of fixed income debt securities issued by the U.S. Treasury, government agencies, and fixed income debt securities issued by corporations. The fixed income fund investments may include the use of high yield, international fixed income securities and other instruments, including derivatives, to ensure prudent diversification over a broad spectrum of

investments. The changes in the value of the fixed income funds are intended to offset the changes in the pension plan liabilities due to changes in the discount rate.

These funds are shown in the above table at NAV. Shares in the private commingled fixed equity funds may be redeemed given one business day notice. While they are private fixed income funds and reported at NAV, due to the short redemption notice period, the lack of redemption fees, the fact that the underlying investments are exchange-traded, and that substantial liabilities do not exist subject to the NAV calculation, these investments are viewed as indirectly observable (Level 2), and are also not excluded from the body of the fair value table as a reconciling item.

(4) With the exception of items (2) and (3), which are discussed in detail above, the Level 2 assets consist mainly of pooled funds and mutual funds. These funds are collective short-term funds that invest in Treasury bills and money market funds and are used as a temporary cash repository.

(5) The insurance company general account contracts are annuity insurance contracts used to pay the pensions of employees who retired prior to 1989. The balance of the account disclosed in the above table is the contract value, which is the result of deposits, withdrawals, and interest credits.

Centuri

Defined Contribution Plans

Centuri offers defined contribution plans under Section 401(k) of the Internal Revenue Code to its eligible employees, whether covered or not under collective-bargaining agreements. Eligibility requirements vary, as does timing of participation, matching, vesting, and profit-sharing features of the plans. Contributions by Centuri to these plans for the years ended December 31, 2019, 2018, and 2017 were \$8 million, \$7 million, and \$6.3 million, respectively.

Deferred Compensation Plan

Centuri sponsors a nonqualified deferred compensation plan that is offered to a select group of management and highly-compensated employees. The plan allows participants to defer up to 80% of base salary and provides a match of 100% of contributions up to 5% of a participant's salary. The plan also allows Centuri, at its discretion, to credit participant accounts with discretionary contributions. Participants are 100% vested in salary deferrals, contributions, and all earnings. Participant accounts include a return based on the performance of the underlying investment options selected. Payments from the plan are designated at each annual enrollment period based on specified triggering events and are payable by lump sum or on an annual installment basis.

Multiemployer Pension Plans

Centuri makes defined contributions to several multiemployer defined benefit pension plans under the terms of collective bargaining agreements ("CBAs") with various unions representing certain employees. Contribution rates are generally specified in the CBAs and are made to the plans on a "pay-as-you-go" basis. Such contributions correspond to the number of union employees and the particular plans in which they participate, and vary depending upon the location, number of ongoing projects, and the need for union resources in connection with those projects.

The risks of participating in these multiemployer plans are different from single-employer plans, including: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the multiemployer plan, the unfunded obligations of the plan may become the obligation of the remaining participating employers; and (iii) if a participating employer chooses to stop participating in these multiemployer plans, the employer may be required to pay those plans an amount based on the underfunded status of the plan.

The Pension Protection Act of 2006 requires special funding and operational rules for multiemployer plans in the U.S., including classification of the plans (based on multiple factors, including the funded status of the plan), the most severe of which is "critical." Depending upon the classification, plans may be required to adopt measures to improve their funded status through a funding improvement or rehabilitation plan, which may require additional contributions from employers (in the form of a surcharge on benefit contributions) and/or modification of retiree benefits. The amount of additional funds, if any, that Centuri may be obligated to contribute to these plans in the future cannot be estimated due to the uncertainty regarding future levels of work that may require the utilization of union employees covered by these plans, as well as uncertainty as to the future contribution levels and possible surcharges on contributions that may apply to these plans at that time.

Centuri contributed \$41.3 million, \$38.2 million, and \$35.2 million collectively to the plans for the years ended December 31, 2019, 2018, and 2017, respectively. Substantially all of the contributions made by Centuri during these years were to U.S. plans that were not classified as critical, and for which no special surcharges were assessed. Only two plans were classified as critical and required special surcharges; however, the contributions overall related to these plans in all periods were insignificant.

Note 12 - Income Taxes*Southwest Gas Holdings, Inc.:*

The following is a summary of income before taxes and noncontrolling interest for domestic and foreign operations:

(Thousands of dollars)	Year ended December 31,		
	2019	2018	2017
U.S.	\$ 261,525	\$ 235,120	\$ 246,131
Foreign	11,145	8,216	12,899
Total income before income taxes	\$ 272,670	\$ 243,336	\$ 259,030

Income tax expense (benefit) consists of the following:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 622	\$ (13,476)	\$ (1,316)
State	(1,510)	(3,219)	2,965
Foreign	5,013	2,563	5,203
	4,125	(14,132)	6,852
Deferred:			
Federal	45,593	67,784	58,443
State	8,212	8,901	1,837
Foreign	(1,907)	(869)	(2,044)
	51,898	75,816	58,236
Total income tax expense	\$ 56,023	\$ 61,684	\$ 65,088

Deferred income tax expense (benefit) consists of the following significant components:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Deferred federal and state:			
Property-related items	\$ 60,449	\$ 94,899	\$ 44,516
Purchased gas cost adjustments	3,834	(3,507)	8,500
Employee benefits	7,680	(7,334)	(2,517)
Regulatory adjustments	(11,962)	2,412	14,401
All other deferred	(7,857)	(10,041)	(5,935)
Total deferred federal and state	52,144	76,429	58,965
Deferred ITC, net	(246)	(613)	(729)
Total deferred income tax expense	\$ 51,898	\$ 75,816	\$ 58,236

A reconciliation of the U.S. federal statutory rate to the consolidated effective tax rate (and the sources of these differences and the effect of each) are summarized as follows:

	Year Ended December 31,		
	2019	2018	2017
U.S. federal statutory income tax rate	21.0 %	21.0 %	35.0 %
Net state taxes	2.1	2.9	1.1
Tax credits	(0.3)	(0.3)	(0.4)
Company-owned life insurance	(1.5)	0.1	(1.6)
Change in U.S. Federal Income Tax Rate	—	—	(7.8)
Amortization of excess deferred taxes	(0.9)	—	—
All other differences	0.1	1.6	(1.2)
Consolidated effective income tax rate	20.5 %	25.3 %	25.1 %

Deferred tax assets and liabilities consist of the following:

(Thousands of dollars)	December 31,	
	2019	2018
Deferred tax assets:		
Deferred income taxes for future amortization of ITC and excess deferred taxes	\$ 105,077	\$ 105,791
Employee benefits	37,439	39,215
Alternative minimum tax credit	4,409	21,603
Federal net operating losses	7,467	13,125
Interest rate swap	1,432	2,235
Lease-related item	21,226	—
Other	20,104	21,191
Valuation allowance	(25)	(1,132)
	197,129	202,028
Deferred tax liabilities:		
Property-related items, including accelerated depreciation	732,798	678,307
Regulatory balancing accounts	9,931	6,097
Unamortized ITC	122	368
Debt-related costs	2,818	3,110
Intangibles	10,611	7,807
Lease-related item	20,386	—
Other	19,447	34,276
	796,113	729,965
Net noncurrent deferred tax liabilities	\$ 598,984	\$ 527,937

Net noncurrent deferred tax liabilities above at December 31, 2019 and 2018 are reflected net of \$856,000 and \$1.26 million of noncurrent deferred tax assets associated with the Company's Canadian operations, which are shown separately on the Company's Consolidated Balance Sheets.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Thousands of dollars)	December 31,	
	2019	2018
Unrecognized tax benefits at beginning of year	\$ 971	\$ 1,430
Gross increases – tax positions in prior period	85	—
Gross decreases – tax positions in prior period	—	459
Gross increases – current period tax positions	—	—
Gross decreases – current period tax positions	—	—
Settlements	—	—
Lapse in statute of limitations	—	—
Unrecognized tax benefits at end of year	\$ 1,056	\$ 971

Southwest Gas Corporation:

The following is a summary of income before taxes:

(Thousands of dollars)	Year ended December 31,		
	2019	2018	2017
Total income before income taxes	\$ 198,144	\$ 182,833	\$ 219,953

Income tax expense (benefit) consists of the following:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Current:			
Federal	\$ 4,109	\$ (17,584)	\$ 318
State	250	(6,783)	1,420
	4,359	(24,367)	1,738
Deferred:			
Federal	29,543	58,136	60,662
State	1,071	10,222	735
	30,614	68,358	61,397
Total income tax expense	\$ 34,973	\$ 43,991	\$ 63,135

Deferred income tax expense (benefit) consists of the following significant components:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Deferred federal and state:			
Property-related items	\$ 34,398	\$ 67,576	\$ 49,129
Purchased gas cost adjustments	3,834	(3,507)	8,500
Employee benefits	6,493	2,156	(5,707)
Regulatory Adjustments	(11,962)	2,412	14,401
All other deferred	(1,903)	334	(4,197)
Total deferred federal and state	30,860	68,971	62,126
Deferred ITC, net	(246)	(613)	(729)
Total deferred income tax expense	\$ 30,614	\$ 68,358	\$ 61,397

A reconciliation of the U.S. federal statutory rate to the consolidated effective tax rate (and the sources of these differences and the effect of each) are summarized as follows:

	Year Ended December 31,		
	2019	2018	2017
U.S. federal statutory income tax rate	21.0 %	21.0 %	35.0 %
Net state taxes	0.7	2.1	0.6
Tax credits	(0.4)	(0.4)	(0.4)
Company-owned life insurance	(1.9)	0.3	(1.7)
Change in U.S. Federal Income Tax Rate	—	—	(3.6)
Amortization of excess deferred taxes	(1.2)	—	—
All other differences	(0.5)	1.1	(1.2)
Effective income tax rate	17.7 %	24.1 %	28.7 %

Deferred tax assets and liabilities consist of the following:

(Thousands of dollars)	December 31,	
	2019	2018
Deferred income taxes for future amortization of ITC and excess deferred taxes	\$ 105,077	\$ 105,791
Employee benefits	13,574	17,337
Alternative minimum tax credit	4,409	21,603
Federal net operating losses	—	4,557
Interest rate swap	1,432	2,235
Other	10,761	13,362
Valuation allowance	(25)	(37)
	135,228	164,848
Deferred tax liabilities:		
Property-related items, including accelerated depreciation	644,046	614,205
Regulatory balancing accounts	9,931	6,097
Unamortized ITC	122	368
Debt-related costs	2,818	3,110
Other	17,361	31,526
	674,278	655,306
Net deferred tax liabilities	\$ 539,050	\$ 490,458

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Thousands of dollars)	December 31,	
	2019	2018
Unrecognized tax benefits at beginning of year	\$ 971	\$ 1,069
Gross increases – tax positions in prior period	85	—
Gross decreases – tax positions in prior period	—	98
Gross increases – current period tax positions	—	—
Gross decreases – current period tax positions	—	—
Settlements	—	—
Lapse in statute of limitations	—	—
Unrecognized tax benefits at end of year	\$ 1,056	\$ 971

In assessing whether uncertain tax positions should be recognized in its financial statements, management first determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluations of whether a tax position has met the more-likely-than-not recognition threshold, management presumes that the position will be examined by the appropriate taxing authority that would have full knowledge of all relevant information. For tax positions that meet the more-likely-than-not recognition threshold, management measures the amount of benefit recognized in the financial statements at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Unrecognized tax benefits are recognized in the first financial reporting

period in which information becomes available indicating that such benefits will more-likely-than-not be realized. For each reporting period, management applies a consistent methodology to measure unrecognized tax benefits, and all unrecognized tax benefits are reviewed periodically and adjusted as circumstances warrant. Measurement of unrecognized tax benefits is based on management’s assessment of all relevant information, including prior audit experience, the status of audits, conclusions of tax audits, lapsing of applicable statutes of limitation, identification of new issues, and any administrative guidance or developments.

At December 31, 2019, the total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$1 million individually for both the Company and Southwest. No significant increases or decreases in unrecognized tax benefit are expected within the next 12 months.

The Company and Southwest recognize interest expense and income and penalties related to income tax matters in income tax expense. There was no tax-related interest income for 2019, 2018, and 2017.

The Company’s regulated operations accounting for income taxes is impacted by the FASB’s ASC 980 – Regulated Operations. Reductions in accumulated deferred income tax balances due to the reduction in the corporate income tax rates to 21% under the provisions of the Tax Cuts and Jobs Act (“TCJA”), enacted in December 2017, may result in a refund of excess deferred taxes to customers, generally through reductions in future rates. The TCJA included provisions that stipulate how these excess deferred taxes may be passed back to customers for certain accelerated tax depreciation benefits. Potential refunds of other deferred taxes will be determined in conjunction with appropriate regulatory commissions. Southwest began refunding excess deferred taxes to Nevada customers starting in January 2019. The December 31, 2019 Consolidated Balance Sheets of Southwest and the Company reflect the impact of the TCJA with a balance of the regulatory liability for accumulated deferred income taxes of \$453 million.

The Company and its subsidiaries file a consolidated federal income tax return in the U.S. and in various states, as well as separate returns in Canada. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or Canadian income tax examinations for years before 2015.

The Company and each of its subsidiaries, including Southwest, participate in a tax sharing agreement to establish the method for allocating tax benefits and losses among members of the consolidated group. The consolidated federal income tax is apportioned among the subsidiaries using a separate return method.

At December 31, 2019, the Company has a federal net operating loss carryforward of \$36 million which may be carried forward indefinitely. The Company also has general business credits of \$6.0 million, which begin to expire in 2035. The Company has net capital loss carryforwards of \$107,000, which will begin to expire in 2020. At December 31, 2019, the Company has an income tax net operating loss carryforward related to Canadian operations of \$5.6 million, which begins to expire in 2034.

Management intends to continue to permanently reinvest any future foreign earnings in Canada.

Note 13 - Derivatives

In managing its natural gas supply portfolios, Southwest has historically entered into fixed- and variable-price contracts, which qualify as derivatives. Additionally, Southwest has utilized fixed-for-floating swap contracts (“Swaps”) to supplement its fixed-price contracts. The fixed-price contracts, firm commitments to purchase a fixed amount of gas in the future at a fixed price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business, and are exempt from fair value reporting. The variable-price contracts qualify as derivative instruments; however, because the contract price is the prevailing price at the future transaction date, the contract has no determinable fair value. The Swaps’ contract prices are determined at the beginning of each month to reflect that month’s published first of month index price and are recorded at fair value. Southwest does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

Southwest historically utilized fixed-price contracts and Swaps under its volatility mitigation programs to effectively fix the price on a portion of its natural gas supply portfolios. The maturities of the Swaps highly correlate to forecasted purchases of natural gas, with the longest maturity date of the Swaps being October 2020. Management does not currently anticipate entering into new Swaps in the near term. Regarding existing Swap arrangements, Southwest pays the counterparty a fixed rate and receives from the counterparty a floating rate per MMBtu (“dekatherm”) of natural gas. Only the net differential is paid or received. The differential is calculated based on the notional amounts under the contracts, which are detailed in the table below:

(Thousands of dekatherms)	December 31,	
	2019	2018
Contract notional amounts	11,965	13,387

The following table presents the amounts paid to and received from counterparties for settlements of matured Swaps:

(Thousands of dollars)	Year Ended December 31,		
	2019	2018	2017
Paid to counterparties	\$ 10,438	\$ 6,781	\$ 3,100
Received from counterparties	\$ 1,352	\$ 606	\$ 1,685

Pursuant to regulatory deferral accounting treatment for rate-regulated entities, unrealized gains and losses in fair value of the Swaps are recorded as a regulatory asset and/or liability. When the Swaps mature, any prior positions held are reversed and the settled position is recorded as an increase or decrease of purchased gas under the related purchase gas adjustment (“PGA”) mechanism in determining the deferred PGA balances. Neither changes in fair value nor settled amounts of Swaps have a direct effect on earnings or other comprehensive income, since following settlement, amounts are reflected in Net cost of gas sold at the same time they are included in Gas operating revenues through updates to the PGA component of rates.

Previously, Southwest entered into forward-starting interest rate swaps (“FSIRS”), the settled positions for which are immaterial and continue to be amortized from Accumulated other comprehensive income (loss) into interest expense.

The estimated fair value of Southwest’s Swaps was determined at December 31, 2019 and 2018 using futures settlement prices for the delivery of natural gas at Henry Hub adjusted by the price of future settlement bases, which reflect the difference between the price of natural gas at a given delivery basin and the Henry Hub pricing points. These Level 2 inputs are observable in the marketplace throughout the full term of the Swaps and have been credit-risk adjusted with no significant impact to the overall fair value measurement. The following table sets forth the fair value of the Swaps and their location in the Consolidated Balance Sheets for both the Company and Southwest. It also sets forth the location of regulatory assets or liabilities offsetting, dollar-for-dollar, the fair value of the Swaps (pursuant to Southwest’s rate-regulation).

Fair values of derivatives not designated as hedging instruments:

(Thousands of dollars)

December 31, 2019

Swap Position					
Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total	Offsetting Balance Sheet Location (Regulatory Asset/(Liability))
Swaps	Other current liabilities	\$ 3	\$ (10,954)	\$ (10,951)	Prepaid and other current assets
Total		\$ 3	\$ (10,954)	\$ (10,951)	

December 31, 2018

Swap Position					
Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total	Offsetting Balance Sheet Location (Regulatory Asset/(Liability))
Swaps	Prepaid and other current assets	\$ 243	\$ (99)	\$ 144	Other current liabilities
Swaps	Other current liabilities	1,595	(3,347)	(1,752)	Prepaid and other current assets
Swaps	Other deferred credits	141	(251)	(110)	Deferred charges and other assets
Total		\$ 1,979	\$ (3,697)	\$ (1,718)	

Master netting arrangements exist with each counterparty that provide for the net settlement (in the settlement month) of all contracts through a single payment. As applicable, management has elected to reflect the net amounts in the Consolidated Balance Sheets. No outstanding collateral associated with the Swaps existed during any period presented in the above table.

Note 14 - Segment Information

The Company’s operating segments are determined based on the nature of their activities. The natural gas operations segment is engaged in the business of purchasing, distributing, and transporting natural gas. Revenues are generated from the distribution and transportation of natural gas. The utility infrastructure services segment is primarily engaged in the business of providing utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems, and providing industrial construction solutions. Although our utility infrastructure services operations are geographically dispersed, they are aggregated and reported as a single segment as each reporting unit has similar economic characteristics. Over 99% of the total Company’s long-lived assets are in the U.S.

The accounting policies of the reported segments are the same as those described within **Note 1 - Background, Organization, and Summary of Significant Accounting Policies**. Centuri accounts for the services provided to Southwest at contractual prices at contract inception. Accounts receivable for these services, which are not eliminated during consolidation, are presented in the table below:

(Thousands of dollars)	December 31,	
	2019	2018
Accounts receivable for Centuri services	\$ 15,235	\$ 18,830

The following table presents the amount of revenues for both segments by geographic area:

(Thousands of dollars)	December 31,		
	2019	2018	2017
Revenues (a)			
United States	\$ 2,893,201	\$ 2,664,670	\$ 2,345,134
Canada	226,716	215,343	203,658
Total	<u>\$ 3,119,917</u>	<u>\$ 2,880,013</u>	<u>\$ 2,548,792</u>

(a) Revenues are attributed to countries based on the location of customers.

The Company has two reportable segments: natural gas operations and utility infrastructure services. Southwest has a single reportable segment that is referred to herein as the natural gas operations segment of the Company. In order to reconcile to net income as disclosed in the Consolidated Statements of Income, an Other column is included associated with impacts of corporate and administrative activities related to Southwest Gas Holdings, Inc. The financial information pertaining to the natural gas operations and utility infrastructure services segments for each of the three years in the period ended December 31, 2019 is as follows:

(Thousands of dollars)	Year Ended December 31, 2019			
	Natural Gas Operations	Utility Infrastructure Services	Other	Total
Revenues from external customers	\$ 1,368,939	\$ 1,592,252	\$ —	\$ 2,961,191
Intersegment sales	—	158,726	—	158,726
Total	<u>\$ 1,368,939</u>	<u>\$ 1,750,978</u>	<u>\$ —</u>	<u>\$ 3,119,917</u>
Interest income	\$ 6,356	\$ —	\$ —	\$ 6,356
Interest expense	\$ 95,026	\$ 14,086	\$ 114	\$ 109,226
Depreciation and amortization	\$ 215,620	\$ 87,617	\$ —	\$ 303,237
Income tax expense	\$ 34,973	\$ 21,399	\$ (349)	\$ 56,023
Segment net income	\$ 163,171	\$ 52,404	\$ (1,639)	\$ 213,936
Segment assets	\$ 6,798,746	\$ 1,365,194	\$ 6,108	\$ 8,170,048
Capital expenditures	\$ 778,748	\$ 159,400	\$ —	\$ 938,148

Year Ended December 31, 2018

(Thousands of dollars)	Natural Gas Operations	Utility Infrastructure Services	Other	Total
Revenues from external customers	\$ 1,357,728	\$ 1,386,371	\$ —	\$ 2,744,099
Intersegment sales	—	135,914	—	135,914
Total	\$ 1,357,728	\$ 1,522,285	\$ —	\$ 2,880,013
Interest income	\$ 6,020	\$ 88	\$ —	\$ 6,108
Interest expense	\$ 81,740	\$ 14,190	\$ 741	\$ 96,671
Depreciation and amortization	\$ 191,816	\$ 57,396	\$ —	\$ 249,212
Income tax expense	\$ 43,991	\$ 18,420	\$ (727)	\$ 61,684
Segment net income	\$ 138,842	\$ 44,977	\$ (1,542)	\$ 182,277
Segment assets	\$ 6,141,584	\$ 1,215,573	\$ 572	\$ 7,357,729
Capital expenditures	\$ 682,869	\$ 83,045	\$ —	\$ 765,914

Year Ended December 31, 2017

(Thousands of dollars)	Natural Gas Operations	Utility Infrastructure Services	Other	Total
Revenues from external customers	\$ 1,302,308	\$ 1,149,325	\$ —	\$ 2,451,633
Intersegment sales	—	97,159	—	97,159
Total	\$ 1,302,308	\$ 1,246,484	\$ —	\$ 2,548,792
Interest income	\$ 2,784	\$ 3	\$ —	\$ 2,787
Interest expense	\$ 69,733	\$ 7,986	\$ 345	\$ 78,064
Depreciation and amortization	\$ 201,922	\$ 49,029	\$ —	\$ 250,951
Income tax expense	\$ 63,135	\$ 2,390	\$ (437)	\$ 65,088
Segment net income	\$ 156,818	\$ 38,360	\$ (1,337)	\$ 193,841
Segment assets	\$ 5,482,669	\$ 752,496	\$ 1,901	\$ 6,237,066
Capital expenditures	\$ 560,448	\$ 63,201	\$ —	\$ 623,649

Note 15 - Quarterly Financial Data (Unaudited)

The following table presents summarized quarterly financial data for 2019 and 2018:

	Quarter Ended			
	March 31	June 30	September 30	December 31
(Thousands of dollars, except per share amounts)				
2019				
Southwest Gas Holdings, Inc.:				
Operating revenues	\$ 833,539	\$ 713,011	\$ 725,230	\$ 848,137
Operating income	140,480	54,869	38,258	138,204
Net income	95,384	22,832	6,525	91,906
Net income attributable to Southwest Gas Holdings, Inc.	94,809	22,056	5,353	91,718
Basic earnings per common share (1)	1.78	0.41	0.10	1.67
Diluted earnings per common share (1)	1.77	0.41	0.10	1.67
Southwest Gas Corporation:				
Operating revenues	\$ 520,677	\$ 258,711	\$ 209,980	\$ 379,571
Operating income (loss)	148,713	24,069	(1,807)	112,678
Net income (loss)	103,389	3,369	(20,012)	76,425
2018				
Southwest Gas Holdings, Inc.:				
Operating revenues	\$ 754,330	\$ 670,883	\$ 668,146	\$ 786,654
Operating income	129,560	53,338	39,681	134,854
Net income	78,294	21,551	12,331	69,476
Net income attributable to Southwest Gas Holdings, Inc.	79,091	21,551	12,331	69,304
Basic earnings per common share (1)	1.63	0.44	0.25	1.36
Diluted earnings per common share (1)	1.63	0.44	0.25	1.36
Southwest Gas Corporation:				
Operating revenues	\$ 494,313	\$ 275,679	\$ 217,523	\$ 370,213
Operating income	141,173	24,675	3	115,962
Net income (loss)	90,349	2,622	(13,670)	59,541

(1) The sum of quarterly earnings (loss) per average common share may not equal the annual earnings (loss) per share due to the ongoing change in the weighted-average number of common shares.

The demand for natural gas is seasonal, and it is the opinion of management that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in operations. Also, the timing of general rate relief can have a significant impact on earnings for interim periods.

Note 16 - Redeemable Noncontrolling Interest

In connection with the acquisition of Linetec in November 2018, the previous owner retained a 20% equity interest in Linetec, the reduction of which is subject to certain rights based on the passage of time or upon the occurrence of certain triggering events. Effective January 2022, the Company has the right, but not the obligation, to purchase at fair value (subject to a floor) a portion of the interest held by the noncontrolling party, and in incremental amounts each year thereafter. The shares subject to the election accumulate (if earlier elections are not made) such that 100% of the interest retained by the noncontrolling party is subject to the election beginning in 2024. If the Company does not exercise its rights at each or any of the specified intervals, the noncontrolling party has the ability, but not the obligation, to exit their investment retained by requiring Centuri to purchase a similar portion of their interest up to the maximum cumulative amounts specified and at each interval discussed above. The outstanding noncontrolling interest is not subject to minimum purchase provisions and following the eligibility dates for the elections, they do not expire. The redemption price represents the greater of fair value of the ownership interest to be redeemed on the redemption date or a floor

amount under the terms of the agreement. The Company has determined that this noncontrolling interest is a redeemable noncontrolling interest and, in accordance with SEC guidance, is classified as mezzanine equity (temporary equity) in the Company's Consolidated Balance Sheets.

Significant changes in the value of the redeemable noncontrolling interest, above a floor established at the acquisition date, are recognized as they occur, and the carrying value is adjusted as necessary at each reporting date. The fair value is estimated using a market approach that utilizes certain financial metrics from guideline public companies of similar industry and operating characteristics. However, the carrying value of the redeemable noncontrolling interest was greater than its fair value as of December 31, 2019, and no previous upward redemption value adjustments were made following the acquisition date. SEC guidance indicates that a redemption value adjustment would not be made under these circumstances.

The following depicts changes to the balance of the redeemable noncontrolling interest:

(Thousands of dollars)	Redeemable Noncontrolling Interest	
Balance, December 31, 2017	\$	—
Redeemable noncontrolling interest acquired		81,659
Net income attributable to redeemable noncontrolling interest		172
Balance, December 31, 2018		81,831
Net income attributable to redeemable noncontrolling interest		2,711
Balance, December 31, 2019	\$	84,542

Note 17 - Business Acquisitions

As indicated in **Note 1 - Background, Organization, and Summary of Significant Accounting Policies**, on November 30, 2018, the Company, through its subsidiaries, led principally by Centuri, completed the acquisition of an 80% interest in a privately held utility infrastructure services business, Linetec, for approximately \$303.4 million, with the remaining 20% retained by the seller. Of the \$303.4 million ultimate purchase price, \$47.6 million was paid during the year ended December 31, 2019 and \$4.7 million remained unpaid as of year end.

The acquisition extended the utility services operations in the southeastern region of the U.S. and provides additional opportunities for expansion of the amount of work Centuri performs for electric utilities. Funding for the acquisition was primarily provided by a portion of net proceeds from the Company's equity offering in November 2018 and from Centuri's \$590 million secured revolving credit and term loan facility, as amended, described below and in **Note 8 - Debt**.

Assets acquired and liabilities assumed in the transaction were recorded, generally, at their estimated acquisition date fair values. The Company's allocation of the purchase price was based on an evaluation of the appropriate fair values and represented management's best estimate based on available data (including market data, data regarding customers of the acquired business, terms of acquisition-related agreements, analysis of historical and projected results, and other types of data). The analysis included consideration of types of intangibles that were acquired, including customer relationships, trade names, and customer contracts. During a one-year post-acquisition measurement period, the values were adjusted by \$23.2 million related to the combined effects of a mutual tax election under Internal Revenue Code Section 338(h), working capital adjustments, amounts associated with certain unbilled customer receivable balances, and other refinements, as reflected in the table below.

The final estimated fair values of assets acquired and liabilities assumed as of November 30, 2018, are as follows:

(Millions of dollars)	Acquisition Date	Measurement Period Adjustments	Revised Acquisition Date
Cash and cash equivalents	\$ 3.9	\$ —	\$ 3.9
Accounts receivable	32.8	(0.5)	32.3
Revenue earned on contracts in progress in excess of billings	21.6	0.9	22.5
Prepaid expenses and other current assets	1.1	0.1	1.2
Property and equipment	89.4	(1.0)	88.4
Intangible assets	89.3	—	89.3
Goodwill	188.5	(21.2)	167.3
Total assets acquired	426.6	(21.7)	404.9
Accounts payable	8.0	—	8.0
Accrued liabilities	6.9	1.5	8.4
Deferred compensation and related accrued taxes	3.4	—	3.4
Redeemable noncontrolling interest	81.7	—	81.7
Total liabilities assumed and noncontrolling interest	100.0	1.5	101.5
Net assets acquired	\$ 326.6	\$ (23.2)	\$ 303.4

Goodwill consists of the value associated with the assembled workforce, consolidation of operations, and the estimated economic value attributable to future opportunities related to the transaction. As the business of Linetec was deemed an asset purchase for tax purposes, the \$167.3 million of tax-basis goodwill is expected to be deductible for tax purposes. As of the acquisition date, other intangible assets totaled \$89.3 million which are being amortized over a weighted-average life of 19 years. Of the \$89.3 million of intangible assets, \$79 million was attributable to customer relationships with an assigned life of 20 years, \$10 million was attributable to a trade name with a 15-year useful life, and \$300,000 was attributable to customer contracts with a useful life of one year. The intangible assets other than goodwill are included in Other property and investments in the Company's Consolidated Balance Sheets.

The unaudited pro forma consolidated financial information for fiscal 2018 and fiscal 2017 (assuming the acquisition of Linetec occurred as of the beginning fiscal 2017) was as follows:

(In thousands of dollars, except per share amounts)	Year Ended December 31,	
	2018	2017
Total operating revenues	\$ 3,037,209	\$ 2,626,721
Net income attributable to Southwest Gas Holdings, Inc.	\$ 187,642	\$ 192,368
Basic earnings per share	\$ 3.80	\$ 4.01
Diluted earnings per share	\$ 3.79	\$ 4.01

Acquisition costs of \$6.9 million that were incurred during 2018, and included in Utility infrastructure services expenses in the Consolidated Statements of Income, were excluded from the 2018 unaudited pro forma consolidated financial information shown above and included in the 2017 amounts. No material nonrecurring pro forma adjustments directly attributable to the business combination were included in the unaudited pro forma consolidated financial information.

The pro forma financial information includes assumptions and adjustments made to incorporate various items including, but not limited to, additional interest expense and depreciation and amortization expense, and tax effects, as appropriate. The pro forma financial information has been prepared for comparative purposes only, and is not intended to be indicative of what the Company's results would have been had the acquisition occurred at the beginning of the periods presented nor indicative of results which may occur in the future, for a number of reasons. These reasons include, but are not limited to, differences between the assumptions used to prepare the pro forma information, potential cost savings from operating efficiencies, and the impact of incremental costs incurred in integrating the business.

Actual results from Linetec operations, excluding transaction costs incurred by Centuri, included in the Consolidated Statements of Income since the date of acquisition are as follows:

(Thousands of dollars)	Year Ended December 31,	
	2019	2018
Utility infrastructure services revenues	\$ 236,099	\$ 14,119
Net income attributable to Southwest Gas Holdings, Inc.	10,844	690

MANAGEMENT’S REPORTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Southwest Gas Holdings, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined by Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of Southwest Gas Holdings, Inc. management, including the principal executive officer and principal financial officer, an evaluation was conducted of the effectiveness of internal control over financial reporting based on the “*Internal Control – Integrated Framework*” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon management’s evaluation under such framework, management concluded that the internal control over financial reporting was effective as of December 31, 2019. The effectiveness of internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Management of Southwest Gas Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of Southwest Gas Corporation management, including the principal executive officer and principal financial officer, an evaluation was conducted of the effectiveness of internal control over financial reporting based on the “*Internal Control – Integrated Framework*” (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon management’s evaluation under such framework, management concluded that Southwest Gas Corporation’s internal control over financial reporting was effective as of December 31, 2019. This annual report does not include a report of Southwest Gas Corporation’s registered public accounting firm regarding internal control over financial reporting pursuant to rules of the Securities and Exchange Commission that permit Southwest Gas Corporation to provide only this management’s report in this annual report.

March 2, 2020

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Southwest Gas Holdings, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Southwest Gas Holdings, Inc. and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial

statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Regulatory Assets and Liabilities

As described in Note 5 to the consolidated financial statements, the Company's net regulatory liabilities were \$364 million as of December 31, 2019. The Company is subject to the regulation of the Arizona Corporation Commission, the Public Utilities Commission of Nevada, the California Public Utilities Commission and the Federal Energy Regulatory Commission. Accounting treatment for rate-regulated entities allows for deferral of costs as regulatory assets, costs that otherwise would be expensed, if it is probable that future recovery from customers will occur. Management reviews the regulatory assets to assess their recoverability. If rate recovery is no longer probable, due to competition or the actions of regulators, write-off of the related regulatory asset as a current period expense would be recognized. Regulatory liabilities are recorded if it is probable that revenues will be reduced for amounts that will be refunded to customers through the ratemaking process.

The principal considerations for our determination that performing procedures relating to the Company's accounting for regulatory assets and liabilities is a critical audit matter are there was a significant amount of judgment by management in the ongoing evaluation of regulatory assets and liabilities and in applying guidance contained in regulatory proceedings and other relevant evidence including the timing of recognition of regulatory assets and liabilities. This in turn resulted in significant auditor judgment, subjectivity and effort in performing audit procedures and evaluating audit evidence relating to management's judgments about the probability of recovery of regulatory assets and estimates made to record regulatory liabilities.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of regulatory proceedings, including the probability of recovery of regulatory assets, refund of regulatory liabilities, and disclosure impacts. These procedures also included, among others, obtaining the Company's correspondence with regulators, evaluating the reasonableness of management's assessment regarding the probability of recovery of regulatory assets and refund of regulatory liabilities based on the status of regulatory proceedings and evaluating the related accounting and disclosure implications.

/s/PricewaterhouseCoopers LLP
Las Vegas, Nevada
March 2, 2020

We have served as the Company or its predecessor's auditor since 2002.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of Southwest Gas Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Southwest Gas Corporation and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

Las Vegas, Nevada

March 2, 2020

We have served as the Company’s auditor since 2002.

SOUTHWEST GAS HOLDINGS, INC.
LIST OF SUBSIDIARIES OF THE REGISTRANT
AT DECEMBER 31, 2019

SUBSIDIARY NAME	STATE OF INCORPORATION OR ORGANIZATION TYPE
Southwest Gas Holdings, Inc.	Delaware
Southwest Gas Utility Group, Inc.	California
Southwest Gas Corporation	California
Utility Financial Corp.	Nevada
The Southwest Companies	Nevada
Southwest Gas Transmission Company	Limited partnership between Southwest Gas Corporation and Utility Financial Corp.
Paiute Pipeline Company	Nevada
Carson Water Company	Nevada
Centuri Group, Inc.	Nevada
Centuri U.S. Division, Inc.	Nevada
Centuri Canada Division Inc.	Ontario, Canada
NPL Canada Ltd.	Ontario, Canada
W.S. Nicholls Construction Inc.	Ontario, Canada
NPL Construction Co.	Nevada
Canyon Pipeline Construction Inc.	Nevada
New England Utility Constructors, Inc.	Massachusetts
Linetec Services, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-222047, 333-231297) and Form S-8 (Nos. 333-215145-01, 333-155581-01, 333-200835-01, 333-168731-01, 333-215150-01, 333-185354-01, 333-222048) of Southwest Gas Holdings, Inc. of our report dated March 2, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the 2019 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Las Vegas, Nevada

March 2, 2020

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-222047-01) of Southwest Gas Corporation of our report dated March 2, 2020 relating to the financial statements, which appears in the 2019 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

/s/ **PricewaterhouseCoopers LLP**

Las Vegas, Nevada

March 2, 2020

Certification of Southwest Gas Holdings, Inc.

I, John P. Hester, certify that:

1. I have reviewed this annual report on Form 10-K of Southwest Gas Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ JOHN P. HESTER

John P. Hester

President and Chief Executive Officer
Southwest Gas Holdings, Inc.

Certification of Southwest Gas Holdings, Inc.

I, Gregory J. Peterson, certify that:

1. I have reviewed this annual report on Form 10-K of Southwest Gas Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Senior Vice President/Chief Financial Officer
Southwest Gas Holdings, Inc.

Certification of Southwest Gas Corporation

I, John P. Hester, certify that:

1. I have reviewed this annual report on Form 10-K of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ JOHN P. HESTER

John P. Hester

President and Chief Executive Officer

Southwest Gas Corporation

Certification of Southwest Gas Corporation

I, Gregory J. Peterson, certify that:

1. I have reviewed this annual report on Form 10-K of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2020

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Senior Vice President/Chief Financial Officer
Southwest Gas Corporation

SOUTHWEST GAS HOLDINGS, INC.

CERTIFICATION

In connection with the periodic report of Southwest Gas Holdings, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, John P. Hester, the President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: March 2, 2020

/s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer
Southwest Gas Holdings, Inc.

SOUTHWEST GAS HOLDINGS, INC.

CERTIFICATION

In connection with the periodic report of Southwest Gas Holdings, Inc. (the "Company") on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Gregory J. Peterson, Senior Vice President/Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: March 2, 2020

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Senior Vice President/Chief Financial Officer
Southwest Gas Holdings, Inc.

SOUTHWEST GAS CORPORATION

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, John P. Hester, the President and Chief Executive Officer of Southwest Gas Corporation, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Southwest Gas Corporation at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: March 2, 2020

/s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer
Southwest Gas Corporation

SOUTHWEST GAS CORPORATION

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation on Form 10-K for the period ended December 31, 2019 as filed with the Securities and Exchange Commission (the "Report"), I, Gregory J. Peterson, Senior Vice President/Chief Financial Officer of Southwest Gas Corporation, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Southwest Gas Corporation at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: March 2, 2020

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Senior Vice President/Chief Financial Officer
Southwest Gas Corporation