SOUTHWEST GAS CORP
Form 10-K
March 01, 2007
**Table of Contents**

# 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 year ended December 31, 2006

Commission File Number 1-7850

# SOUTHWEST GAS CORPORATION

**(Exact name of registrant as specified in its charter)**

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

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

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

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| Common Stock, $1 par value | New York Stock Exchange, Inc. |
| 7.70% Preferred Trust Securities | New York Stock Exchange, Inc. |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** þ **No** ¨

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** þ **No** ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. **þ**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

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

$1,275,488,075 as of June 30, 2006

**The number of shares outstanding of common stock:**

Common Stock, $1 Par Value, 41,997,015 shares as of February 15, 2007

**DOCUMENTS INCORPORATED BY REFERENCE**

| **Description** | **Part Into Which Incorporated** |
|---|---|
| Annual Report to Shareholders for the Year Ended December 31, 2006 | Parts I, II, and IV |
| 2007 Proxy Statement | Part III |

Table of Contents

**TABLE OF CONTENTS**

**PART I**


| | | PAGE |
|---|---|---|
| **Item 1.** | **BUSINESS** | 1 |
| | Natural Gas Operations | 1 |
| | General Description | 1 |
| | Rates and Regulation | 2 |
| | Demand for Natural Gas | 3 |
| | Natural Gas Supply | 3 |
| | Competition | 4 |
| | Environmental Matters | 5 |
| | Employees | 5 |
| | Construction Services | 5 |
| **Item 1A.** | **RISK FACTORS** | 6 |
| **Item 1B.** | **UNRESOLVED STAFF COMMENTS** | 8 |
| **Item 2.** | **PROPERTIES** | 8 |
| **Item 3.** | **LEGAL PROCEEDINGS** | 9 |
| **Item 4.** | **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS** | 9 |
| **Item 4A.** | **DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT** | 9 |
| | **PART II** | |
| **Item 5.** | **MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES** | 10 |
| **Item 6.** | **SELECTED FINANCIAL DATA** | 10 |
| **Item 7.** | **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** | 10 |
| **Item 7A.** | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** | 10 |
| **Item 8.** | **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA** | 11 |
| **Item 9.** | **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE** | 11 |
| **Item 9A.** | **CONTROLS AND PROCEDURES** | 12 |
| **Item 9B.** | **OTHER INFORMATION** | 12 |
| | **PART III** | |
| **Item 10.** | **DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE** | 13 |
| **Item 11.** | **EXECUTIVE COMPENSATION** | 14 |
| **Item 12.** | **SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS** | 14 |
| **Item 13.** | **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE** | 15 |

**Item 14.** **PRINCIPAL ACCOUNTING FEES AND SERVICES** 15

**PART IV**

**Item 15.** **EXHIBITS, FINANCIAL STATEMENT SCHEDULES** 16

List of Exhibits 17

**SIGNATURES** 21

Table of Contents

## PART I

### Item 1. BUSINESS

Southwest Gas Corporation (the Company ) was incorporated in March 1931 under the laws of the state of California. The Company is composed of two business segments: natural gas operations ( Southwest or the natural gas operations segment) and construction services.

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

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

Financial information concerning the Company s business segments is included in Note 12 of the Notes to Consolidated Financial Statements, which is included in the 2006 Annual Report to Shareholders and is incorporated herein by reference.

The Company maintains a website (www.swgas.com) for the benefit of shareholders, investors, customers, and other interested parties. The Company makes its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports available, free of charge, through its website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ( SEC ). The Company s 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 are also available on the website and are available in print by request.

## NATURAL GAS OPERATIONS

### General Description

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

As of December 31, 2006, Southwest purchased and distributed or transported natural gas to 1,784,000 residential, commercial, and industrial customers in geographically diverse portions of Arizona, Nevada, and California. There were 71,000 customers added to the system during 2006.

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

| | Distribution | | |
|---|---|---|---|
| For the Year Ended | Residential and Small Commercial | Other Sales Customers | Transportation |
| December 31, 2006 | 85% | 6% | 9% |
| December 31, 2005 | 86% | 5% | 9% |
| December 31, 2004 | 86% | 5% | 9% |

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.

1

Table of Contents

Transportation of customer-secured gas to end-users accounted for 48 percent of total system throughput in 2006. Customers who utilized this service transported 118 million dekatherms in 2006, 127 million dekatherms in 2005, and 126 million dekatherms in 2004. Although these volumes were significant, these customers provide a much smaller proportionate share of operating margin.

The demand for natural gas is seasonal. Variability in weather from normal temperatures can materially impact results of operations. It is the opinion of management that comparisons of earnings for interim periods do not reliably reflect overall trends and changes in operations. 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: Sierra Pacific Power Company (serving Reno and Sparks, Nevada) and Southwest Gas Corporation (serving Truckee, South Lake Tahoe and North Lake Tahoe, 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 prudently incurred costs, including a return on rate base sufficient to pay interest on debt and subordinated debentures, and a reasonable return on common equity. Rate base consists generally of the original cost of utility plant in service, 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 schedules in Southwest s service territories, with the exception of Nevada, contain purchased gas adjustment clauses, which allow Southwest to file for rate adjustments as the cost of purchased gas changes. In Nevada, effective November 2005, Southwest began operating under the deferred energy regulations as established by the Nevada Administrative Code, which governs the recovery of energy costs in the state. These provisions result in little difference from purchased gas adjustment clauses in the method used to account for or report purchased gas costs, including the ability of the Company to defer over or under-collections of gas costs to balancing accounts. Effective October 2005, the Company began filing for quarterly gas cost adjustments in Nevada, calculated on a twelve-month rolling average. These adjustments are made effective immediately upon filing each quarter, but are subject to an annual prudence review and audit of the natural gas costs incurred. The Company filed its first quarterly adjustment in April 2006. 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 and PGA filings is included in the Rates and Regulatory Proceedings section of Management s Discussion and Analysis ( MD&A ) in the 2006 Annual Report to Shareholders.

The table below lists the docketed general rate filings last initiated 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 | December 2004 | March 2006 |
| California: | | | |
| Northern and Southern | General rate case | February 2002 | May 2003 |
| Northern and Southern | Annual attrition | October 2006 | January 2007 |
| Nevada: | | | |
| Northern and Southern | General rate case | March 2004 | September 2004 |
| FERC: | | | |
| Paiute | General rate case | January 2005 | August 2005 |

Table of Contents

**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 may be as much as six 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. No weather-related curtailments occurred during the latest peak heating season. Southwest maintains no significant backlog on its orders for gas service.

**Natural Gas Supply**

Southwest is responsible for acquiring (purchasing) and arranging delivery of (transporting via interstate pipelines) natural gas to its system for all sales customers.

The primary objective of Southwest in acquiring gas supply is to ensure that adequate supplies of natural gas are available from reliable sources at the best cost. Gas is acquired from a wide variety of sources and a mix of purchase provisions, including spot market purchases and firm supplies with a variety of terms. During 2006, Southwest acquired gas supplies from 56 suppliers. Southwest regularly monitors the number of suppliers, their quality and their relative contribution to the overall customer supply portfolio. New suppliers are contracted whenever possible, and solicitations for supplies are extended to the largest possible list of suppliers. Competitive pricing, flexibility in meeting Southwest requirements, and aggressive participation by suppliers who have demonstrated reliability of service are key to their inclusion in the annual portfolio mix. The goal of this practice is to mitigate the risk of nonperformance by any one supplier and ensure competitive prices for customer supplies.

Balancing reliable supply assurances with the associated costs 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. Firm and spot market natural gas purchases are made in a competitive bid environment. Southwest has experienced price volatility over the past five years, as the weighted average delivered cost of natural gas has ranged from a low of 38 cents per therm in 2002 to a high of 79 cents per therm in 2006. Price volatility is expected to continue throughout 2007.

To mitigate customer exposure to market price volatility, Southwest continues to purchase a significant percentage of its forecasted annual normal weather requirements under firm, fixed-price arrangements that are secured periodically throughout the year. About half of Southwest s annual normal weather supply needs are secured using short duration contracts (one year or less). For the 2006/2007 heating season, fixed-price contracts ranged in price from $6 to $11 per dekatherm. Natural gas purchases not covered by fixed-price contracts are made under variable-price contracts with firm quantities and on the spot market. Prices for these contracts are not known until the month of purchase.

The firm, fixed-price arrangements are structured such that a stated volume of gas is required to be scheduled by Southwest and delivered by the supplier. If the gas is not needed by Southwest or cannot be procured by the supplier, the contract provides for fixed or market-based penalties to be paid by the non-performing party.

In managing its gas supply portfolios, Southwest uses the fixed-price and variable-price arrangements noted above, but does not currently utilize other stand-alone derivative financial instruments for speculative purposes or for hedging. During 2007, Southwest intends to supplement its current volatility mitigation program with stand-alone financial derivative instruments. The combination of fixed-price contracts and derivative instruments should increase flexibility for Southwest and increase supplier diversification. The costs of such derivative financial instruments are expected to be recovered from customers. None of the Company s current long-term financial instruments or other contracts are derivatives that are marked to market or contain embedded derivatives with significant mark-to-market value.

Storage availability can influence the average annual price of gas, as storage allows a company to purchase natural gas in larger quantities during the off-peak season and store it for use in high demand periods when prices may be greater or supplies/capacity tighter. Southwest currently has no storage availability in its Arizona or southern Nevada rate jurisdictions. Limited storage availability exists in southern and northern California and northern Nevada. A contract with

Table of Contents

Southern California Gas Company is intended for delivery only within Southwest s southern California rate jurisdiction. In addition, a contract with Paiute for its LNG facility allows for peaking capability only in northern Nevada and northern California. Gas is purchased for injection during the off-peak period for use in the high demand months, but is limited in its impact on the overall price.

Gas supplies for the southern system of Southwest (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 gas from Rocky Mountain producing areas and from Canada.

Southwest arranges for transportation of 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 ), Northwest Pipeline Corporation, Tuscarora Gas Pipeline Company ( Tuscarora ), Southern California Gas Company, and Paiute. Supply and pipeline capacity availability on both short- and long-term bases is regularly monitored by Southwest 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 of its service territories on the pipeline systems noted above and also has interruptible contracts in place that allow additional capacity to be acquired should an unforeseen need arise.

Southwest is dependent upon the El Paso pipeline system for the transportation of gas to virtually all of its Arizona service territories and, for part of 2006, to a portion of its southern Nevada service territory. During 2005, Southwest entered into negotiations with alternative transportation service providers to evaluate capacity options for its southern Nevada service territory. After evaluating several proposals, Transwestern was chosen to replace the capacity previously provided by El Paso for southern Nevada, effective September 2006. The new five-year contract with Transwestern extends capacity during winter months and provides greater flexibility in meeting monthly requirements. Rates under the new contract do not differ significantly from those previously paid. El Paso service is available in Southern Nevada on an interruptible basis.

The Company believes that the current level of contracted firm interstate capacity is sufficient to serve each of its service territories. As the need arises to acquire additional capacity on one of the interstate pipeline transmission systems, 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.

**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. As a result of its success in these markets, Southwest has experienced consistent growth among the residential and small commercial customer classes.

Unlike residential and small commercial customers, 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 at levels competitive with alternative energy sources such as electricity, fuel oils, and coal. However, high natural gas prices may impact Southwest s ability to retain some of these customers. Overall, management does not anticipate any material adverse impact on operating margin from fuel switching.

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

Table of Contents

**Environmental Matters**

Federal, state, and local laws and regulations governing the discharge of materials into the environment have had little direct impact upon Southwest. Environmental efforts, with respect to matters such as protection of endangered species and archeological finds, have increased the complexity and time required to obtain pipeline rights-of-way and construction permits. However, increased environmental legislation and regulation are also beneficial to the natural gas industry. Because natural gas is one of the most environmentally safe fossil fuels currently available, its use can help energy users to comply with stricter environmental standards.

**Employees**

At December 31, 2006, the natural gas operations segment had 2,525 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.

## CONSTRUCTION SERVICES

NPL is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems. NPL contracts primarily with LDCs to install, repair, and maintain energy distribution systems from the town border station to the end-user. The primary focus of business operations is main and service replacement as well as new business installations. Construction work varies from relatively small projects to the piping of entire communities. Construction activity is seasonal in most areas. Peak construction periods are the summer and fall months in colder climate areas, such as the Midwest. In the warmer climate areas, such as the southwestern United States, construction continues year round. Construction activity is also cyclical and can be significantly impacted by changes in general and local economic conditions, including interest rates, employment levels, job growth, equipment resale market, and local and federal tax rates.

NPL business activities are often concentrated in utility service territories where existing energy lines are scheduled for replacement. An LDC will typically contract with NPL to provide pipe replacement services and new line installations. Contract terms generally specify unit-price or fixed-price 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 2006, approximately 91 percent of revenue was earned under unit-price contracts. As of December 31, 2006, no significant backlog existed with respect to outstanding construction contracts.

Materials used by NPL in its pipeline construction activities are typically specified, purchased, and supplied by NPL s customers. Construction contracts 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, NPL s operations have minimal environmental impact (dust control, normal waste disposal, handling harmful materials, etc.).

Competition within the industry has traditionally been limited to several regional competitors in what has been a largely fragmented industry. Several national competitors also exist within the industry. NPL currently operates in approximately 16 major markets nationwide. Its customers are the primary LDCs in those markets. During 2006, NPL served 59 major customers, with Southwest accounting for approximately 27 percent of NPL revenues. With the exception of three other customers that in total accounted for approximately 31 percent of revenue, no other customer had a relatively significant contribution to NPL revenues.

Employment fluctuates between seasonal construction periods, which are normally heaviest in the summer and fall months. At December 31, 2006, NPL had 2,377 regular full-time equivalent employees. Employment peaked in September 2006 when there were 2,526 employees. Most employees are represented by unions and are covered by collective bargaining agreements, which is typical of the utility construction industry.

Operations are conducted from 17 field locations with corporate headquarters located in Phoenix, Arizona. Buildings are normally leased from third parties. The lease terms are typically five years or less. Field location facilities consist of a small building for repairs and land to store equipment.

Table of Contents

NPL is not directly affected by regulations promulgated by the ACC, PUCN, CPUC, or FERC in its construction services. NPL is an unregulated construction subsidiary of Southwest Gas Corporation. However, because NPL performs work for the regulated natural gas segment of the Company, its construction costs are subject indirectly to prudency reviews just as any other capital work that is performed by third parties or directly by Southwest. However, such prudency reviews would not bring NPL under the regulatory jurisdiction of any of the commissions noted above.

**Item 1A. RISK FACTORS**

*Although the Company is not able to predict all factors that may affect future results, described below (and in **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** of this report) are some of the risk factors identified by the Company 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. Unless indicated otherwise, references below to we, us and our should be read to refer to Southwest Gas Corporation and its subsidiaries.*

**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 PGA 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 2007, if the need again arises.

We may file requests for rate increases to cover the rise in the costs of purchased gas. Due to the nature of the regulatory process, there is a risk of a 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 flow and earnings.

**Governmental policies and regulatory actions can reduce our earnings.**

Regulatory commissions set our 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, the CPUC, the FERC, and the 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, changes in tax laws and policies, and changes in and compliance with environmental and safety laws and policies, can reduce our earnings. Risks and uncertainties relating to delays in obtaining regulatory approvals, conditions imposed in regulatory approvals, or determinations in regulatory investigations can also impact financial performance. In particular, the timing and amount of rate relief can materially impact results of operation.

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.

Table of Contents

**Significant customer growth in Arizona and Nevada could strain our capital resources.**

We continue to experience significant population and customer growth throughout our service territories. During 2006, we added 71,000 customers, a four percent growth rate. This growth has required large amounts of capital to finance the investment in new transmission and distribution plant. In 2006, our natural gas construction expenditures totaled $306 million. Approximately 76 percent of these current-period expenditures represented new construction, and the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant.

Cash flows from operating activities (net of dividends) have been insufficient, and are expected to continue to be insufficient, to fund all necessary capital expenditures. We have funded this shortfall through the issuance of additional debt and equity securities, and expect to continue to do so. However, our ability to issue additional securities is dependent upon, among other things, conditions in the capital markets, regulatory authorizations, our credit rating, and our level of earnings.

**Significant customer growth in Arizona and Nevada could also impact earnings.**

Our ability to earn the rates of return authorized by the ACC and the PUCN is also more difficult because of significant customer growth. The rates we charge our distribution customers in Arizona and Nevada are derived using rate base, cost of service, and cost of capital experienced in a historical test year, as adjusted. This results in regulatory lag which delays our recovery of some of the costs of capital improvements and operating costs from customers in Arizona and Nevada.

**Our earnings are greatly affected by variations in temperature during the winter heating season.**

The demand for natural gas is seasonal and is greatly affected by temperature. Variability in weather from normal temperatures can materially impact results of operations, particularly in our Arizona service territories where rates are highly leveraged. On cold days, use of gas by residential and commercial customers may be as much as six times greater than on warm days because of the increased use of gas for space heating. Weather has been and will continue to be one of the dominant factors in our financial performance.

**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.

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

Our operations are subject to inherent hazards and risks such as gas leaks, fires, natural disasters, explosions, pipeline ruptures, and other hazards and risks that may cause unforeseen interruptions, personal injury, or property damage. Additionally, our facilities, machinery, and equipment, including our pipelines, are subject to third party damage from construction activities and vandalism. Any of these events could 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. In connection with these liability insurance policies, we have been responsible for an initial deductible or self-insured retention amount per incident, after which the insurance carriers would be responsible for amounts up to the policy limits. The Company s current insurance contracts limit the self-insured retention to $1 million per incident plus payment of the first $5 million in aggregate claims above $1 million. We cannot predict the likelihood that any future event will occur which will result in a claim exceeding $1 million; however, a large claim for which we were deemed liable would reduce our earnings.

Table of Contents

**We rely on having access to interstate pipelines transportation capacity. If these pipelines 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, particularly in our Arizona service territories where we are wholly dependent upon the El Paso pipeline system. A prolonged interruption or reduction of service, particularly during the winter heating season, would reduce cash flow and earnings.

**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 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. For example, in May 2006, Moody s Investors Service, Inc. ( Moody s ) lowered its rating on the Company s unsecured long-term debt to Baa3 from Baa2 and changed the outlook for the rating to stable from negative. The change in credit rating will result in an estimated annualized increase of $375,000 in interest expense on existing long-term debt. No debt covenants were affected by the downgrade.

Any future downgrade could further increase our borrowing costs, which would diminish our financial results. We would likely be required to pay a higher interest rate in 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.

## 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 plants, 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 plant investment. 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. Several properties are leased by Southwest, including a portion of the corporate headquarters office complex located in Las Vegas, Nevada and the administrative offices in Phoenix, Arizona. Total gas plant, exclusive of leased property, at December 31, 2006 was $3.8 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, on the streets and grounds of municipalities under authority conferred by franchises or otherwise, or on 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 has had continuous and uninterrupted possession and use of all such rights-of-way, and the associated gas mains and service lines, commencing with the initial stages of the 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.

8

Table of Contents

Southwest 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) and Laughlin. 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 NPL can be found on page 5 of this Form 10-K under Construction Services.

**Item 3. LEGAL PROCEEDINGS**

The Company maintains liability insurance for various risks associated with the operation of its natural gas pipelines and facilities. In May 2005, a leaking natural gas line was involved in a fire that severely injured an individual. By December 2005, the Company had recorded a total liability related to this incident equal to the Company s maximum self-insured retention level for the policy year August 2004 to July 2005 of $11 million. In the fourth quarter of 2006, the case was settled. The amount of the settlement that exceeded $11 million was covered by insurance. The Company s current insurance contracts limit the self-insured retention to $1 million per incident plus payment of the first $5 million in aggregate claims above $1 million.

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

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Item 4A. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

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

Table of Contents

## 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. At February 15, 2007, there were 23,306 holders of record of common stock, and the market price of the common stock was $38.80. The quarterly market price of, and dividends on, Company common stock required by this item are included in the 2006 Annual Report to Shareholders filed as an exhibit hereto and incorporated herein by reference.

The Company s common stock dividend policy states that common stock dividends will be paid at a prudent level within the normal dividend payout range for its respective businesses, and that dividends will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles. The quarterly common stock dividend was 20.5 cents per share throughout 2005 and 2006. The dividend of 20.5 cents per share has been paid quarterly since September 1994. In February 2007, the Board of Directors increased the quarterly dividend payout to 21.5 cents per share, effective with the June 2007 payment.

### Item 6. SELECTED FINANCIAL DATA

Information required by this item is included in the 2006 Annual Report to Shareholders 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 2006 Annual Report to Shareholders and is incorporated herein by reference.

### Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various forms of market risk, including commodity price risk, weather risk, and interest rate risk. The following describes the Company s exposure to these risks.

*Commodity Price Risk*

About half of Southwest s annual normal weather gas supply needs are secured using short duration contracts (one year or less). For the 2006/2007 heating season, fixed-price contracts ranged in price from $6 to $11 per dekatherm. Natural gas purchases not covered by fixed-price contracts are made under variable-price contracts with firm quantities and on the spot market. Prices for these contracts are not known until the month of purchase. The PGA mechanism allows Southwest to file to change the gas cost component of the rates charged to its customers to reflect increases or decreases in the price expected to be paid to its suppliers and companies providing interstate pipeline transportation service. Filings to change rates in accordance with PGA clauses are subject to audit by state regulatory commission staffs.

The Company does not currently utilize stand-alone derivative financial instruments, other than fixed-price term and variable-rate contracts, for speculative purposes or for hedging. During 2007, Southwest intends to supplement its current volatility mitigation program with stand-alone derivative instruments. The combination of fixed-price contracts and derivative instruments should increase flexibility for Southwest and increase supplier diversification. The Company intends to pursue the recovery of such costs as part of the PGA mechanisms upon approval by Southwest s regulatory commissions in each jurisdiction.

*Weather Risk*

A significant portion of the Company s operating margin is volume driven with current rates based on an assumption of normal weather. Demand for natural gas is greatly affected by temperature. On cold days, use of gas by residential and commercial customers may be as much as six times greater than on warm days because of increased use of gas for

10

Table of Contents

space heating. Space heating-related volumes are the primary component of billings for these customer classes and are concentrated in the months of November to April. Variances in temperatures from normal levels, especially during these months, have a significant impact on the margin and associated net income of the Company. This impact is most pronounced in Arizona, where 54 percent of Southwest s customers are located and where rates are highly leveraged.

The Company continues to pursue mechanisms in each of its service territories intended to stabilize the recovery of the Company s fixed costs and reduce fluctuations in customers bills due to colder or warmer-than-normal weather. In California, the CPUC authorized a margin tracker balancing account in April 2004 that mitigates margin volatility due to weather and other usage variations. In Nevada, the PUCN approved certain rate design improvements in September 2004 to mitigate weather variations, including an increase in the monthly basic service charge and the use of declining block rates. In Arizona, most of Southwest s requests for weather mitigation measures in its recent general rate case were rejected in the ACC s final order approved in February 2006. The ACC did however encourage Southwest to work with the ACC Staff and other interested parties prospectively to seek rate design alternatives that will provide benefits to all affected stakeholders.

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates could adversely affect earnings or cash flows. Specific interest rate risks for the Company include the risk of increasing interest rates on variable-rate obligations. Interest rate risk sensitivity analysis is used to measure interest rate 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 variable-rate Industrial Development Revenue Bonds ( IDRBs ) are tracked and recovered from ratepayers through an interest balancing account. As of December 31, 2006 and 2005, the Company had $197 million and $224 million, respectively, in variable-rate debt outstanding, excluding Nevada variable-rate IDRBs. Assuming a constant outstanding balance in variable-rate debt for the next twelve months, a hypothetical one percent change in interest rates would increase or decrease interest expense for the next twelve months by approximately $2 million.

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 Corporation and Notes thereto, together with the report of PricewaterhouseCoopers LLP, are included in the 2006 Annual Report to Shareholders and are incorporated herein by reference.

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

None.

Table of Contents

**Item 9A. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

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

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

*Internal Control Over Financial Reporting*

The report of management of the Company required to be reported herein is incorporated by reference to the information reported in the 2006 Annual Report to Shareholders under the caption Management s Report on Internal Control Over Financial Reporting on page 61.

The Attestation Report of the Registered Public Accounting Firm required to be reported herein is incorporated by reference to the information reported in the 2006 Annual Report to Shareholders under the caption Report of Independent Registered Public Accounting Firm on page 62.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

Table of Contents

## PART III

### Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

(a) *Identification of Directors.* Information with respect to Directors is set forth under the heading Election of Directors in the definitive 2007 Proxy Statement, which by this reference is incorporated herein.

(b) *Identification of Executive Officers.* The name, age, position, and period position held during the last five years for each of the Executive Officers of the Company as of December 31, 2006 are as follows:

| Name | Age | Position | Period Position Held |
|---|---|---|---|
| Jeffrey W. Shaw | 48 | Chief Executive Officer | 2004-Present |
| | | President | 2003-2004 |
| | | Senior Vice President/Gas Resources and Pricing | 2002-2003 |
| | | Senior Vice President/Finance and Treasurer | 2002 |
| James P. Kane | 60 | President | 2004-Present |
| | | Executive Vice President/Operations | 2002-2004 |
| George C. Biehl | 59 | Executive Vice President/Chief Financial Officer and Corporate Secretary | 2002-Present |
| John P. Hester | 44 | Senior Vice President/Regulatory Affairs & Energy Resources | 2006-Present |
| | | Vice President/Regulatory Affairs and Systems Planning | 2003-2006 |
| | | Director/State Regulatory Affairs and Systems Planning | 2002-2003 |
| Edward A. Janov | 52 | Senior Vice President/Finance | 2004-Present |
| | | Vice President/Finance | 2003-2004 |
| | | Vice President/Finance and Treasurer | 2002-2003 |
| | | Vice President/Chief Accounting Officer | 2002 |
| Christina A. Palacios | 61 | Senior Vice President/Central Arizona Division | 2005-Present |
| | | Senior Vice President/Southern Arizona Division | 2004-2005 |
| | | Vice President/Southern Arizona Division | 2002-2004 |
| Thomas R. Sheets | 56 | Senior Vice President/Legal Affairs and General Counsel | 2002-Present |
| Dudley J. Sondeno | 54 | Senior Vice President/Chief Knowledge and Technology Officer | 2002-Present |
| Roy R. Centrella | 49 | Vice President/Controller and Chief Accounting Officer | 2002-Present |
| | | Controller | 2002 |
| Kenneth J. Kenny | 44 | Vice President/Treasurer | 2005-Present |
| | | Treasurer | 2003-2005 |
| | | Assistant Treasurer/Director Financial Services | 2002-2003 |

(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 is set forth under the heading Election of Directors in the definitive 2007 Proxy Statement, which 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.

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

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

(h) *Audit Committee Financial Expert.* Information with respect to the financial expert of the Board of Directors audit committee is set forth under the heading Committees of the Board in the definitive 2007 Proxy Statement, which by this reference is incorporated herein.

13

Table of Contents

(i) *Identification of the Audit Committee.* Information with respect to the composition of the Board of Directors audit committee is set forth under the heading Committees of the Board in the definitive 2007 Proxy Statement, which by this reference is incorporated herein.

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

*Section 16(a) Beneficial Ownership Reporting Compliance.* The Company has adopted procedures to assist its directors and executive officers in complying with Section 16(a) of the Exchange Act, as amended, which includes assisting in the preparation of forms for filing. For 2006, all reports were timely filed.

*Code of Business Conduct and Ethics.* The Company has adopted a code of business conduct and ethics for its employees, including its 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 Company s Code of Business Conduct & Ethics can be viewed on the Company s website (www.swgas.com). If any substantive amendments to the Code of Business Conduct & Ethics are made or any waivers are granted, including any implicit waiver, from a provision of the Code of Business Conduct & Ethics, to the Company s chief executive officer, chief financial officer and chief accounting officer, the Company will disclose the nature of such amendment or waiver on the Company s website, www.swgas.com.

**Item 11. EXECUTIVE COMPENSATION**

Information with respect to executive compensation is set forth under the heading Executive Compensation in the definitive 2007 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 2007 Proxy Statement, which 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 2007 Proxy Statement, which by this reference is incorporated herein.

(c) *Changes in Control.* None.

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

Table of Contents

At December 31, 2006, the Company had two stock-based compensation plans. With respect to the first plan, the Company may grant options to purchase shares of common stock to key employees and outside directors.

**Equity Compensation Plan Information**

| Plan category (Thousands of shares) | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance |
|---|---|---|---|
| Equity compensation plans approved by security holders | 957 | $ 26.26 | |
| Equity compensation plans not approved by security holders | | | |
| Total | 957 | $ 26.26 | |

Pursuant to the terms of the management incentive plan, the Company may issue performance shares to encourage key employees to remain in its employment to achieve short-term and long-term performance goals.

| Plan category (Thousands of shares) | Number of securities to be issued upon vesting of performance shares | Weighted-average grant date fair value of award | Number of securities remaining available for future issuance |
|---|---|---|---|
| Equity compensation plans approved by security holders | 319 | $ 24.61 | (a) |
| Equity compensation plans not approved by security holders | | | |
| Total | 319 | $ 24.61 | |

(a) No common shares are registered for this plan, but performance shares are authorized for future grant under the terms of the plan.
Additional information regarding the two equity compensation plans is included in Note 10 of the Notes to Consolidated Financial Statements in the 2006 Annual Report to Shareholders.

**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 2007 Proxy Statement, which 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 Accountants in the definitive 2007 Proxy Statement, which by this reference is incorporated herein.

15

Table of Contents

**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 (including the Reports of Independent Accountants) required to be reported herein are incorporated by reference to the information reported in the 2006 Annual Report to Shareholders under the following captions:


| | |
|---|---|
| Consolidated Balance Sheets | 38 |
| Consolidated Statements of Income | 39 |
| Consolidated Statements of Cash Flows | 40 |
| Consolidated Statements of Stockholders Equity and Comprehensive Income | 41 |
| Notes to Consolidated Financial Statements | 42 |
| Management s Report on Internal Control Over Financial Reporting | 61 |
| Report of Independent Registered Public Accounting Firm | 62 |


(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**.

Table of Contents

**LIST OF EXHIBITS**

| Exhibit Number | Description of Document |
|---|---|
| 1.01 | Sales Agency Financing Agreement, dated as of March 16, 2006, between Southwest Gas Corporation and BNY Capital Markets, Inc. Incorporated herein by reference to the report on Form 8-K dated March 16, 2006. |
| 3(i) | Restated Articles of Incorporation, as amended. Incorporated herein by reference to the report on Form 10-Q for the quarter ended March 31, 1997. |
| 3(ii) | Amended Bylaws of Southwest Gas Corporation. Incorporated herein by reference to the report on Form 8-K dated March 16, 2006. |
| 4.01 | 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 the report on Form 10-K for the year ended December 31, 1993. |
| 4.02 | Form of Deposit Agreement. Incorporated herein by reference to the Registration Statement on Form S-3, No. 33-55621. |
| 4.03 | Form of Depositary Receipt (attached as Exhibit A to Form of Deposit Agreement included as Exhibit 4.02 hereto). Incorporated herein by reference to the Registration Statement on Form S-3, No. 33-55621. |
| 4.04 | Indenture between the Company and Harris Trust and Savings Bank dated July 15, 1996, with respect to Debt Securities. Incorporated herein by reference to the report on Form 8-K dated July 26, 1996. |
| 4.05 | First Supplemental Indenture of the Company 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 the report on Form 8-K dated July 31, 1996. |
| 4.06 | Second Supplemental Indenture of the Company 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 the report on Form 8-K dated December 30, 1996. |
| 4.07 | Indenture between Clark County, Nevada, and Harris Trust and Savings Bank as Trustee, dated as of October 1, 1999, with respect to the issuance of $35,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), Series 1999A and Taxable Series 1999B or convertibles of Series B (Series C and D), due 2038. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1999. |
| 4.08 | Third Supplemental Indenture between the Company and The Bank of New York, as successor to Harris Trust and Savings Bank, dated as of February 13, 2001, supplementing and amending the Indenture dated as of July 15, 1996, with respect to the $200,000,000, 8.375% Notes, due 2011. Incorporated herein by reference to the report on Form 8-K dated February 8, 2001. |
| 4.09 | Fourth Supplemental Indenture of the Company to The Bank of New York, as successor to Harris Trust and Savings Bank, dated as of May 6, 2002, supplementing and amending the Indenture dated as of |

Table of Contents

July 15, 1996, with respect to the 7.625% Senior Unsecured Notes due 2012. Incorporated herein by reference to the report on Form 8-K dated May 1, 2002.

4.10 Certificate of Trust of Southwest Gas Capital II. Incorporated herein by reference to the Registration Statement on Form S-3, No. 333-106419.

4.11 Certificate of Trust of Southwest Gas Capital III. Incorporated herein by reference to the Registration Statement on Form S-3, No. 333-106419.

4.12 Certificate of Trust of Southwest Gas Capital IV. Incorporated herein by reference to the Registration Statement on Form S-3, No. 333-106419.

4.13 Trust Agreement of Southwest Gas Capital III. Incorporated herein by reference to the Registration Statement on Form S-3, No. 333-106419.

4.14 Trust Agreement of Southwest Gas Capital IV. Incorporated herein by reference to the Registration Statement on Form S-3, No. 333-106419.

4.15 Form of Common Stock Certificate. Incorporated herein by reference to the report on Form 8-K dated July 22, 2003.

4.16 Form of Preferred Trust Security. Incorporated herein by reference to the report on Form 8-K dated August 20, 2003.

4.17 Form of Indenture with respect to the 7.70% Junior Subordinated Debentures. Incorporated herein by reference to the report on Form 8-K dated August 20, 2003.

4.18 Form of 7.70% Junior Subordinated Debenture. Incorporated herein by reference to the report on Form 8-K dated August 20, 2003.

4.19 Form of Amended and Restated Trust Agreement of Southwest Gas Capital II. Incorporated herein by reference to the report on Form 8-K dated August 20, 2003.

4.20 Form of Guarantee Agreement with respect to the Preferred Trust Securities. Incorporated herein by reference to the report on Form 8-K dated August 20, 2003.

4.21 Indenture between Clark County, Nevada, and BNY Midwest Trust Company as Trustee, dated as of July 1, 2004, with respect to the issuance of $65,000,000 Industrial Development Revenue Bonds (Southwest Gas Corporation), Series 2004A, due 2034. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2004.

4.22 Indenture between Clark County, Nevada, and BNY Midwest Trust Company as Trustee, dated as of October 1, 2004, with respect to the issuance of $75,000,000 Industrial Development Refunding Revenue Bonds (Southwest Gas Corporation), Series 2004B, due 2033. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 2004.

**Table of Contents**

| | |
|---|---|
| 4.23 | Indenture of Trust between Clark County, Nevada and the Bank of New York Trust Company, N.A. as Trustee, dated as of October 1, 2005, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2005A. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2005. |
| 4.24 | Indenture of Trust between Clark County, Nevada and the Bank of New York Trust Company, N.A. as Trustee, dated as of September 1, 2006, relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2006A. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2006. |
| 4.25 | The Company hereby agrees 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 Corporation or its subsidiaries; the total amount of securities authorized thereunder does not exceed 10 percent of the consolidated total assets of Southwest Gas Corporation and its subsidiaries. |
| 10.01 | Project Agreement between the Company and City of Big Bear Lake, California, dated as of December 1, 1993. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1993. |
| 10.02 | Amended and Restated Lease Agreement between the Company and Spring Mountain Road Associates, dated as of July 1, 1996. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 1996. |
| 10.03* | Southwest Gas Corporation Supplemental Retirement Plan, amended and restated as of March 1, 1999. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1999. |
| 10.04* | Southwest Gas Corporation Board of Directors Retirement Plan, amended and restated as of March 1, 1999. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1999. |
| 10.05 | Financing Agreement between the Company and Clark County, Nevada, dated as of October 1, 1999. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 1999. |
| 10.06* | Amended Form of Employment Agreement with Company Officers. Incorporated herein by reference to the reports on Form 10-Q for the quarters ended September 30, 1998, September 30, 2000, and September 30, 2001, and the reports on Form 8-K dated September 21, 2004 and August 1, 2006. |
| 10.07* | Amended Form of Change in Control Agreement with Company Officers. Incorporated herein by reference to the reports on Form 10-Q for the quarters ended September 30, 1998, September 30, 2000, and September 30, 2001, and the reports on Form 8-K dated September 21, 2004 and August 1, 2006. |
| 10.08* | Southwest Gas Corporation Management Incentive Plan, amended and restated January 1, 2002. Incorporated herein by reference to the Proxy Statement dated April 2, 2002. |
| 10.09* | Southwest Gas Corporation 2002 Stock Incentive Plan. Incorporated herein by reference to the Proxy Statement dated April 2, 2002. |
| 10.10* | Southwest Gas Corporation Executive Deferral Plan, amended and restated as of November 19, 2002. Incorporated herein by reference to the Report on Form 10-K for the year ended December 31, 2002. |

**Table of Contents**

| | |
|---|---|
| 10.11* | Southwest Gas Corporation Directors Deferral Plan, amended and restated as of November 19, 2002. Incorporated herein by reference to the Report on Form 10-K for the year ended December 31, 2002. |
| 10.12 | 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 the report on Form 10-Q for the quarter ended September 30, 2003. |
| 10.13* | Form of Executive Option Grant under 2002 Stock Incentive Plan. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2004. |
| 10.14 | Financing Agreement dated as of October 1, 2004 by and between the Company and Clark County, Nevada relating to Clark County Nevada Industrial Development Revenue Bonds Series 2004B. Incorporated herein by reference to the report on Form 10-K for the year ended December 31, 2004. |
| 10.15 | $300 million Five-Year Credit Facility. Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 2005. First Amendment to $300 million Five-Year Credit Facility. Incorporated herein by reference to the report on Form 10-Q for the quarter ended June 30, 2006. |
| 10.16 | 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 the report on Form 10-Q for the quarter ended June 30, 2005. |
| 10.17 | Financing Agreement dated as of October 1, 2005 by and between Clark County, Nevada and Southwest Gas Corporation relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2005A. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2005. |
| 10.18 | Financing Agreement dated as of September 1, 2006 by and between Clark County, Nevada and Southwest Gas Corporation relating to Clark County, Nevada Industrial Development Revenue Bonds Series 2006A. Incorporated herein by reference to the report on Form 10-Q for the quarter ended September 30, 2006. |
| 10.19* | Amendment to Employment and Change in Control Agreements. |
| 12.01 | Computation of Ratios of Earnings to Fixed Charges of Southwest Gas Corporation. |
| 13.01 | Portions of 2006 Annual Report incorporated by reference to the Form 10-K. |
| 21.01 | List of subsidiaries of Southwest Gas Corporation. |
| 23.01 | Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm. |
| 31.01 | Section 302 Certifications. |
| 32.01 | Section 906 Certifications. |

* Management Contracts or Compensation Plans

Table of Contents

**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.

SOUTHWEST GAS CORPORATION

Date: February 28, 2007

By /s/ JEFFREY W. SHAW
Jeffrey W. Shaw
Chief Executive Officer

Table of Contents

**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 |
|---|---|---|
| /s/ GEORGE C. BIEHL<br>(George C. Biehl) | Director, Executive Vice President, Chief Financial Officer, and Corporate Secretary | February 28, 2007 |
| /s/ THOMAS E. CHESTNUT<br>(Thomas E. Chestnut) | Director | February 28, 2007 |
| /s/ STEPHEN C. COMER<br>(Stephen C. Comer) | Director | February 28, 2007 |
| /s/ RICHARD M. GARDNER<br>(Richard M. Gardner) | Director | February 28, 2007 |
| /s/ LEROY C. HANNEMAN, JR.<br>(LeRoy C. Hanneman, Jr.) | Chairman of the Board of Directors | February 28, 2007 |
| /s/ JAMES J. KROPID<br>(James J. Kropid) | Director | February 28, 2007 |
| /s/ MICHAEL O. MAFFIE<br>(Michael O. Maffie) | Director | February 28, 2007 |
| /s/ ANNE L. MARIUCCI<br>(Anne L. Mariucci) | Director | February 28, 2007 |
| /s/ MICHAEL J. MELARKEY<br>(Michael J. Melarkey) | Director | February 28, 2007 |
| /s/ JEFFREY W. SHAW<br>(Jeffrey W. Shaw) | Director and Chief Executive Officer | February 28, 2007 |
| /s/ CAROLYN M. SPARKS<br>(Carolyn M. Sparks) | Director | February 28, 2007 |

| | | |
|---|---|---|
| /s/ TERRENCE L. WRIGHT | Director | February 28, 2007 |
| (Terrence L. Wright) | | |
| /s/ ROY R. CENTRELLA | Vice President, Controller, and Chief Accounting Officer | February 28, 2007 |
| (Roy R. Centrella) | | |

Table of Contents

**EXHIBIT INDEX**

| Exhibit Number | Description of Document |
|---|---|
| 10.19 | Amendment to Employment and Change in Control Agreements. |
| 12.01 | Computation of Ratios of Earnings to Fixed Charges of Southwest Gas Corporation. |
| 13.01 | Portions of 2006 Annual Report to Shareholders incorporated by reference to Form 10-K. |
| 21.01 | List of Subsidiaries of Southwest Gas Corporation. |
| 23.01 | Consent of PricewaterhouseCoopers LLP, an independent registered public accounting firm. |
| 31.01 | Section 302 Certifications. |
| 32.01 | Section 906 Certifications. |