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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation (U 905 G) for Approval of Low-Income Programs and Budgets for Program Years 2012-2014	A1106019 Application No. 11-06-___

APPLICATION OF SOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF LOW-INCOME ASSISTANCE PROGRAMS AND BUDGETS FOR PROGRAM YEARS 2012-2014

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June 15, 2011

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AND BUDGETS FOR PROGRAM YEARS 2012-2014

I. INTRODUCTION

Southwest Gas Corporation (Southwest Gas) respectfully submits its Application for Approval of Low-Income Assistance Programs and Budgets for Program Years (PY) 2012-2014 (Application). In this Application, Southwest Gas seeks: (i) approval of its proposed California Alternate Rates for Energy (CARE) and Energy Savings Assistance Program (ESAP) plans, measures and budgets for PY 2012-2014; (ii) approval to continue the existing CARE and ESAP plans, measures and funding into PY 2012 if a final Decision has not been issued by the Commission prior to January 1, 2012; and (iii) approval to reduce the 2011 adopted budget for ESAP to eliminate carry-over into PY 2012-2014. This Application is made in accordance with Ordering Paragraph No. 3 of the California Public Utilities Commission's (Commission) Decision (D.) 07-12-051 in Rulemaking (R.) 07-01-042 and the April 4, 2011 letter providing guidance for the Small and Multi-Jurisdictional Utility (SMJU) CARE and ESAP 2012-2014 Budget Applications (Guidance Document).

A. OVERVIEW

Southwest Gas serves approximately 1.8 million customers in Arizona, California and Nevada. Southwest Gas has two distinct and separate service territories in California (northern and southern), serving approximately 177,000 customers statewide. Areas served in the northern part of the state include North Lake Tahoe, South Lake Tahoe and Truckee. Big Bear, Needles, Victorville, Barstow and surrounding towns in the high desert area are served in the south. Many customers have secondary residences in Southwest Gas' resort mountain areas of northern California (46 percent of its residential customer base). Southwest Gas' southern California service area has a high percentage of low-income residential customers compared to the other California utilities. Approximately 95 percent of Southwest Gas' overall California customer base is residential with a high percentage of low-income customers. Consequently, Southwest Gas has fewer non-CARE customers and large commercial and industrial customers from which to recover Public Purpose Program (PPP) costs under the PPP surcharge rate. As a result, Southwest Gas' non-CARE PPP surcharge in its southern California service area is one of the highest in the state, at $0.16808 per therm.

Southwest Gas is one of six SMJU's in California. SMJU's have significantly smaller program budgets, smaller customer bases for recovery of program costs and different reporting requirements compared to the large Investor-Owned Utilities (IOU) in California.

Southwest Gas is requesting a total of $45,914,919 for the PY 2012-2014 Low-Income Assistance programs, which consists of: $35,704,111 for CARE program activities, including $595,000 for program administration and an estimated $35,109,111 for the CARE benefit subsidies; and $10,210,808 for ESAP activities.

II. CARE PROGRAM

A. BACKGROUND

The CARE program is a low-income ratepayer assistance program that provides income-qualified residential customers and qualifying group living facilities a 20 percent discount on their monthly energy bill. The program was established through a legislative mandate and was implemented by the Commission in 1989.[1] The program has evolved since its inception and expanded over the years to include modifications such as increases in the program discount from 15% to 20%, adjustments to the qualifying income levels and improving the application process for master-metered submetered tenants to achieve the overall goal of providing CARE program benefits to all qualified California residential customers.

Prior to 2006, Southwest Gas exchanged CARE customer data through electronic data shares with electric utilities that serve Southwest Gas' customers. These data shares have proven to be very effective in identifying and enrolling CARE program participants. During the Winter Initiative of 2005, Southwest Gas revised the CARE income eligibility guidelines from at or below 175 percent of the Federal Poverty Guidelines (FPG) to at or below 200 percent of the FPG.[2] During this time, CARE customer data shares with other utilities ceased due to the difference in income eligibility guidelines. D.06-12-036 permanently increased Southwest Gas' CARE income guidelines to 200 percent and at the same time increased Sierra Pacific's income eligibility guidelines to be the consistent with Southwest Gas'. This change enabled Southwest Gas to re-initiate data shares with Sierra Pacific beginning in January 2007. Likewise, when D.08-12-019 was issued, Southwest Gas was able to resume regular CARE customer data shares with Bear Valley Electric in June 2009. During this time, Southwest Gas also began data shares for submetered customers with Southern California Edison and Sierra Pacific.

During 2007, Southwest Gas focused on changing its master-metered processes, including the related programming requirements for its Customer Service System (CSS), in

[1] Pursuant to Senate Bill (SB) 987 enacted in 1988, the Commission issued Decision 89-09-044 requiring all electric and gas utilities within its jurisdiction to implement the low-income ratepayer assistance (LIRA) programs.
[2] Decision 05-10-044 (Rulemaking 04-01-006, et al.), Interim Opinion Approving Various Emergency Program changes In Light of Anticipated High Natural Gas Prices In the Winter Of 2005-2006, Ordering Paragraph 1.

compliance with Assembly Bill (AB) 2104. AB 2104 required utilities to improve the CARE program application process for tenants receiving electric or gas service from a master-meter customer through a submetered system by January 1, 2008. In August 2007, Southwest Gas designed and implemented new CARE applications for submetered tenants. The new applications gather information for both the tenant and master-metered facility.

In D.08-12-019, the Commission also granted Southwest Gas approval to require recertification every other year, rather than annually, for sub-metered and “expanded CARE programs.” Expanded CARE programs encompass nonprofit group living facilities, migrant farm worker housing centers, privately-owned employee housing, and agricultural employee housing. The implementation of this change enables Southwest Gas to recertify all CARE participants consistently and on the same 2-year timeline.

Southwest Gas recovers its CARE program costs through its PPP surcharge. The program cost is based on the combination of both the administrative costs and the CARE benefits (discounts). In this Application, Southwest Gas requests that the Commission approve its proposed administrative budget. The proposed budget is slightly reduced from the previous program cycle, due to efficiencies achieved via phone and web enrollment. Southwest Gas will continue to assess various CARE enrollment practices to capture all opportunities to improve efficiencies and reduce administrative costs. The calculation and approval of Southwest Gas’ PPP surcharge is discussed in Section IV of this Application.

Southwest Gas plans to continue its current CARE program processes in PY 2012-2014. Program enrollment and processing efficiencies, combined with targeted outreach strategies will allow Southwest Gas to continue to reach its annual enrollment goals with minimal impact to the CARE administration budget.

B. PROGRAM GOALS AND BUDGET FOR PY 2012, 2013, AND 2014

1. GOALS

The Commission adopted a 90 percent penetration goal[3] in D.08-12-019, which Southwest Gas successfully achieved in October of 2009, and continues to surpass. In PY 2009, Southwest Gas enrolled 44,680 customers (92 percent participation rate) out of an estimated 48,390 eligible customers. In PY 2010, Southwest Gas had 50,888 customers participating (95 percent participation rate) in the CARE program, out of an estimated 53,525 eligible customers. As of April 2011, 53,569 customers were enrolled in Southwest Gas' CARE program. Southwest Gas projects that participation will continue to increase to 56,274 customers by year-end 2011, which will continue the current CARE penetration rate of 95 percent. Southwest Gas proposes to continue its current efforts to maintain a minimum of 90 percent CARE penetration for PY 2012-2014.

Consistent with the Commission's goal to enroll all CARE-eligible customers who wish to participate in the program, Southwest Gas proposes to continue its current strategy for PY 2012-2014 to not only encourage CARE enrollment, but also to retain customers in the program. The initiatives implemented during PY 2009-2011, including phone enrollment and phone recertification, along with extending the recertification timeframe for CARE submetered tenants and CARE Expanded Programs, have contributed to Southwest Gas' success. Southwest Gas will continue these efforts into PY 2012-2014 and will be vigilant in identifying new ways to streamline CARE enrollment and processing.

The continuation of these methods for program enrollment and processing efficiencies will allow Southwest Gas to consistently reach its enrollment goals with minimal impact to Southwest Gas' budget. Southwest Gas' proposed enrollment goal for PY 2012-

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[3] Decision 08-12-019 (Application 08-06-031 et al.), Decision On Small And Multijurisdictional Utilities' (SMJU) 2009-2011 Low-Income Energy Efficiency (LIEE) and California Alternate Rates For Energy (CARE) Applications Ordering Paragraph 17, page 48.

2014 is to add approximately 823 new CARE customers in PY 2012, 723 in PY 2013, and 714 in PY 2014. With the projected net enrollment increases, the forecasted CARE penetration rates would be 96 percent in PY 2012, 98 percent in 2013, and 99 percent in 2014, based on Southwest Gas' total number of CARE eligible customers in 2011. Table A-1 in Appendix A further outlines the projected participation goals.

2. BUDGET

To fund its PY 2012-2014 CARE program plans, Southwest Gas proposes an annual administrative budget (excluding benefits) of $195,000 for PY 2012, $200,000 for 2013, and $200,000 for 2014, as outlined in Table A-2. The proposed PY 2012 budget reflects a decrease of approximately $33,000 under the PY 2011 administrative budget of $228,000 authorized in D.08-12-019. This estimated reduction in the administrative budget is directly attributable to the automation and streamlining of internal processes that impact CARE application processing and enrollment.

The estimated program benefits amount is also included in the proposed budgets, but the actual cost depends on how many customers participate in the program and their energy usage. Table A-2 provides an overview of the CARE program budgets (authorized, recorded and estimated) from PY 2009-2014. The CARE program is funded through the PPP surcharge. Non-participating customers pay the PPP surcharges through their energy bills.

Table A-3 provides actual expenditures, along with approved budgets, from 2009 and 2010 by line item, as shown in the tables set forth by the SMJU's Accounting and Reporting Requirements workshop.[4] The 2011 approved budget is also included.

[4] Second Energy Division Workshop Report on the Review of Accounting and Reporting Requirements for the CARE and LIEE Programs of the SMJU's, issued April 5, 2004.

Table A-4 provides actual average costs per enrolled household from 2009 and 2010, along with the estimated average costs from 2011 to 2014, for all major categories of expenses including: Processing, Certification, and Verification; General Administration; and Outreach.

C. PROGRAM ADMINISTRATION

CARE program administrative activities and costs consist of two categories (excluding outreach): Processing/Certification/Verification and General Administration. The following section describes the administration of the program and changes or improvements that Southwest Gas seeks to implement based on the Guidance Document.

1. PROCESSING/CERTIFICATION/VERIFICATION

Southwest Gas' Processing/Verification/Certification category includes labor and data entry costs for the CARE program. CARE functions include: 1) opening and sorting CARE application forms; 2) processing and verifying all CARE applications, including recertification and post-enrollment verification; 3) initiating and responding to customers' inquiries regarding CARE applications and the program; and 4) tracking CARE enrollment and operating statistics in support of operations and regulatory reporting.

With the implementation of phone enrollment and phone recertification, Southwest Gas has experienced a gradual decrease in labor dollars associated with processing applications. The administrative budget has been adjusted to reflect these recent changes. All applications are processed in-house. Southwest Gas also provides postage-paid applications to make the enrollment process easier for its customers.

Table A-4 outlines the average Processing/Certification/Verification costs for enrolled customers for PY 2009 through 2014. The number of customers participating in the CARE program fluctuates throughout the year. Southwest Gas calculated the average costs for PY 2009 and 2010 based on the number of actual CARE participants as of December 31 each year. Thus, the average costs for enrolled customers may be lower or higher during the year because of changes in participation. Southwest Gas has estimated the average costs for PY 2011-2014, according to the estimated spending outlined in Tables A-2 and A-3.

CARE customers are required to re-establish their income eligibility every two years. Recertifications are included in the average costs for Processing/Certification/Verification. There are no costs related to self-certification, because income documentation is not required during the initial enrollment process. However, Southwest Gas annually performs a random post-verification of income eligibility for approximately ten percent of its CARE customers. Southwest Gas anticipates that the enrollment levels will be relatively stable during the next three-year cycle. However, there will be an increased focus in ensuring that participating households are in fact eligible for the program and its subsidies. These costs are included in the Processing/Certification/Verification category.

2. GENERAL ADMINISTRATION

The General Administration cost category includes expenses related to programming for reporting and regulatory compliance. Labor expenses for CARE program management personnel are included, along with travel expenses to attend meetings and workshops with the Commission and other utilities. Day-to-day non-labor costs, such as office supplies, are also part of this category. Table A-4 provides the estimated average General Administration costs for customers enrolled in PY 2009-2014.

Southwest Gas has focused on automating the CARE processes over the past few years instead of manually tracking the program activities and will continue to identify areas where administrative costs can be reduced through electronic process improvements. This effort has included post-enrollment income verification, the expanded use of source codes to track various outreach initiatives, web and telephone enrollment and recertification, and other enhancements to simplify the overall process. Additionally, Southwest Gas has centralized the daily functions of the CARE program to its southern California division office, instead of operating from various smaller district offices throughout the state. The centralization of this function has also allowed for more efficient application processing, as the local representatives interact with CARE on a day-to-day basis and their familiarity gains efficiency in processing.

D. OUTREACH

Southwest Gas' outreach plans for PY 2012-2014 will continue the success of its currently effective outreach strategies. Southwest Gas utilizes multiple communication channels, designed to effectively promote the CARE program. Current outreach efforts include bill inserts, bill messages, on-hold messages, informational web page (www.swgas.com/care), web enrollment/recertification, direct mailings, contractor capitation program, collateral (brochures), utility data shares, and community outreach.

Southwest Gas frequently promotes the CARE program in conjunction with the ESAP and Medical Baseline programs. Outreach materials are translated into Spanish and are available in large print, when applicable. Relay Service (711) is also promoted as another means for hearing-impaired customers to enroll in the program.

Web enrollment has steadily been increasing since it was implemented by Southwest Gas in 2005. CARE applications in English, Spanish[5] and large print for the visually-impaired were initially available in .pdf format to be downloaded and mailed. In 2006, Southwest Gas revised the process to allow customers to submit enrollment requests electronically through the website in English, Spanish and large print (per D.05-07-014). During PY 2010, 1,795 customers were enrolled via Southwest Gas' website.

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[5] Decision 05-07-014 (R.04-01-006 et al.), Opinion Approving Low Income Energy Efficiency and California Alternative Rates for Energy (CARE) Programs For 2005 for Pacificorp, Southwest Gas Corporation, Sierra Pacific Power Company, Avista Corporation,Southern California Water Company (Bear Valley Electric Service), Alpine Natural Gas Operating Company, and West Coast Gas Company, page 33.

Southwest Gas continues to electronically share lists of CARE customers with Southern California Edison, Sierra Pacific, and Bear Valley Electric, and in 2010 identified approximately 12,467 potential CARE eligible customers. Beginning in 2009, Southwest Gas also began sharing electronic lists of submetered CARE customers with Southern California Edison and Sierra Pacific. In 2010, Southwest Gas identified 21 potential CARE eligible customers. Southwest Gas will continue these efforts with Southern California Edison and in 2011 will transition to data shares with Liberty Energy, who recently acquired Sierra Pacific's California electric distribution facilities.[6]

Southwest Gas also continues to utilize an internal report to automatically enroll customers who receive LIHEAP payments, as well as enrolling all ESAP participants in the CARE program. Customers who are already on CARE at the time they participate in the ESAP are also exempted from the random post-enrollment verification process for 24 months. These are additional cost-effective methods to ensure all eligible customers are participating in Southwest Gas' CARE program.

Southwest Gas meets regularly with the large IOUs to share best practices and streamline processes for the CARE program. Discussions are also held with other SMJU's. Collaboration among the utilities has proven to be beneficial. Southwest Gas will continue to participate in these collaborative efforts to further enhance and incorporate changes that may prove beneficial to its own CARE program outreach practices.

Southwest Gas contracts with its ESAP contractors, who are also community-based organizations (CBO's) to participate in its contractor capitation program. Capitation contractors verify customer's CARE participation before the customer is enrolled in ESAP, and are currently paid $12 per new enrollment. Southwest Gas proposes to increase this

[6] Decision 10-10-017 (Application 09-10-028, et al.), Joint Application of Sierra Pacific Power Company (U903E) and California Pacific Electric Company, LLC for Transfer of Control and Additional Requests Relating to Proposed Transaction.

capitation fee to $15 per new enrollment for PY 2012 – 2014 in order to continue to effectively incentivize its CBO's to offer the CARE program during ESAP outreach efforts.

During PY 2012 – 2014, Southwest Gas will continue to monitor and attempt to reduce the attrition rate resulting from customers that fail to recertify. In 2008, Southwest Gas implemented a successful recertification initiative to reach those who may still qualify for CARE, but have not responded to the standard recertification attempts. These customers were sent multiple mailings notifying them of their upcoming enrollment expiration, along with an automated reminder call, as ordered in D.05-07-014.[7] Since its implementation, Southwest Gas has experienced a three percent reduction in recertification attrition. Southwest Gas continues to review its CARE recertification practices to ensure that those dropped are truly ineligible, rather than simply customers who are not given reasonable opportunity to recertify eligibility. Southwest Gas plans to continue all of its current outreach activities for PY 2012-2014 to continue to achieve and maintain 90 percent penetration or greater.

In 2011, Southwest Gas implemented a new letter to all new CARE enrolled customers who have not previously participated in the ESAP. The letter promotes the energy savings benefits of the ESAP and educates the customer on how they may enroll. Utilizing this tactic, Southwest Gas continues to leverage its low income assistance programs.

Table A-4 outlines the estimated average outreach enrollment costs for PY 2009-2014. Southwest Gas has estimated the average costs for 2011-2014, according to the estimated spending in Table A-2 and A-3 and estimated participants in Table A-1.

[7] D.05-07-014, page 42.

E. OTHER CARE PROGRAM ELEMENTS

Southwest Gas will continue utilizing its existing policies and practices to continue to achieve and surpass the 90 percent penetration goal. In its efforts to meet the goal, Southwest Gas has successfully reduced its administrative costs and will continue to identify areas for automation and efficiency in each budget category.

Southwest Gas plans to continue to strengthen its relationship with statewide and local organizations in its ongoing efforts to identify leveraging opportunities. The program will continue to provide literature and information to be included in newsletters and brochures and to create targeted direct mail pieces.

Southwest Gas expects that the implementation of data sharing agreements with the water utilities will be a continuation and slight expansion of existing processes. Southwest Gas believes that the costs incurred to implement these agreements will be minimal, provided that there are not new parameters added. Maintaining existing costs will be based on Southwest Gas' ability to utilize existing processes and procedures without a significant increase in the frequency and complexity of exchanges. Southwest Gas is not seeking additional cost recovery at this time.

III. ENERGY SAVINGS ASSISTANCE PROGRAM

A. BACKGROUND

In 2012, Southwest Gas will enter its thirty-fifth year of offering a low-income energy efficiency program for its customers in California. Southwest Gas' Energy Savings Assistance Program is focused on increasing the energy efficiency and safety in the homes of income qualified customers, while at the same time reducing its customers' energy burden. Three different climate zones are served by Southwest Gas: Climate Zone 14 (Needles), Climate Zone 15 (Victorville, Barstow, and surrounding high desert area) and

Climate Zone 16 (Tahoe, Truckee and Big Bear). Climate zones determine the appropriate weatherization measures to be installed for each area.

Weatherization is the main component of the ESAP, which includes installing measures to increase the energy efficiency for customers who own or rent a residence served by Southwest Gas. Weatherization provides customers with long-term energy savings, lower bills, and increased safety and comfort. Southwest Gas' current program includes the following measures: caulking, ceiling insulation, duct sealing/testing, duct wrap, evaporative cooler covers, faucet aerators, floor insulation, low-flow showerheads, minor home repairs, outlet cover plate gaskets, storm windows, water heater insulation, water heater pipe insulation, and weather-stripping doors. D.08-12-019 approved the addition of floor insulation, storm windows, and duct wrap in Climate Zone 16[8], which Southwest Gas began offering during PY 2009-2011. In its ongoing effort to achieve higher energy savings resulting from participation in the ESAP, Southwest Gas periodically reviews new measures for inclusion in its program.

Southwest Gas proposes the addition of four energy saving measures for implementation during PY 2012–2014 including: high efficiency clothes washers, a furnace clean and tune measure, forced air unit (FAU) standing pilot light conversions, and thermostatic shower valves. The four measures are listed in the newly adopted *California Statewide Low Income Energy Efficiency Policy and Procedures Manual*[9] and represent areas where Southwest Gas can improve its annual energy savings and reduce the energy burden for participating customers.

In September 2008, the Commission adopted the *California Long Term Energy Efficiency Strategic Plan* (Strategic Plan) and outlined "a roadmap for energy efficiency in

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[8] D.08-12-019, Ordering Paragraph 2, page 46.
[9] August 31, 2010 Joint Ruling of Assigned Commissioner and Administrative Law Judge Approving The California Statewide Low Income Energy Efficiency Policy and Procedures Manual.

California through the year 2020 and beyond."[10] The Strategic Plan provided direction to create and launch a single integrated, statewide marketing, education and outreach (ME&O) program for energy efficiency which incorporates the Commission's strategies and goals for the low income sector. The Commission recognized that such an integrated statewide plan would need significant time to develop and therefore, in D.08-12-019, while approving the SMJU's low income energy efficiency budgets for 2009 – 2011, the Commission ordered ME&O budgets be held in abeyance, pending development of the statewide plan.[11]

In June 2010, the Commission recognized it is unreasonable to direct the SMJU's to contribute any portion of their limited low income energy efficiency program budgets toward the statewide ME&O plan and that the SMJU's should not allocate any portion of the SMJU's limited ME&O funds previously held in abeyance toward the statewide ME&O program.[12]

The Commission also recognized that the Strategic Plan, which was updated in January 2011 and was formally referred to as the *California Energy Efficiency Strategic Plan*, may not be practical for the SMJU's to implement due to the small size and geographic scope.[13] Nonetheless, the Commission asked the SMJU's in D.08-12-019 to: "expand the number of customers their LIEE programs serve, increase the energy savings delivered by their LIEE programs, and concentrate LIEE outreach on customers with the

[10] Decision 08-09-040 (Rulemaking 08-07-011 and Application 08-06-004), Decision Adopting The California Long-Term Energy Efficiency Strategic Plan, page 2.
[11] D.08-09-040, Ordering Paragraph 15, page 48.
[12] Decision 10-06-007 Decision Providing Guidance to Small and Multijurisdictional Utilities' Expenditure Of 2010-2011 Low Income Energy Efficiency Marketing, Education and Outreach Budgets Held In Abeyance By Decision 08-12-019, Conclusions of Law 1, page 10.
[13] D.08-12-019, page 9.

greatest energy usage."[14] To assist Southwest Gas in achieving these goals, the Commission approved significantly increased budgets for PY 2009-2011.

The Strategic Plan also indicated that "…the creation of a respected and trusted California brand providing credibility to efficiency programs was among the most important priorities within the Plan."[15] In the Guidance Document, direction was provided for the immediate roll out the new Energy Savings Assistance Program title and logo. Southwest Gas will continue to work with the Energy Division and the Commission in their efforts to develop marketing plans for a more aggressive statewide marketing campaign to promote greater program awareness and participation for future phases of the program.

Though Southwest Gas' ESAP achieved the goals of 1) expanding the number of customers served from 1,437 in 2009 to 2,780 in 2010; 2) increasing the estimated annual energy savings delivered by the program from 59,758 therms in 2009 to 105,948 therms in 2010; and 3) concentrating on customers with the greatest energy use in its outreach efforts, Southwest Gas was unable to expend all funds approved in D.08-12-019. Further discussion of program expansion, achievement of goals, and outreach efforts are discussed in the respective categories below.

The ESAP is funded through the PPP surcharge and paid through participating and non-participating customers' energy bills.

B. PROGRAM GOALS AND BUDGET FOR PY 2012, 2013 AND 2014

1. GOALS

Southwest Gas estimates it will continue to expand its existing ESAP to assist customers in 3,110 homes in PY 2011, 3,479 homes in PY 2012, 3,900 homes in PY 2013, and 4,366 homes in PY 2014, as outlined in Table B-1 in Appendix B. At this pace,

[14] D.08-12-019, page 9.
[15] D.08-09-040 page 11.

Southwest Gas expects to achieve the 100 percent participation goal the Commission outlined in the Strategic Plan.

Southwest Gas has estimated the number of ESAP eligible homes from PY 2011 through 2014. The estimate is based on the number of CARE eligible customers for each year minus the number of homes previously weatherized since 2001[16], and those projected to be weatherized annually through PY 2014. The estimated eligible ESAP customers for PY 2011-2014 are 38,066 for PY 2011, 35,696 for PY 2012, 32,867 for PY 2013, 29,610 for PY 2014, as outlined in Table B-2.

In its 2009-2011 Low-Income Assistance Programs Budget Application (June 2008), Southwest Gas projected treating 1,200 homes and weatherizing 1,100 annually for PY 2009. In D.08-12-019, the Commission authorized treating approximately 2,207[17] homes and weatherizing 2,057 in PY 2009. The actual number of homes treated totaled 1,436 during PY 2009. Of those, 1,338 homes were weatherized. The actual number of homes assisted during PY 2009 shows a reduction of 13 percent from PY 2008, and was below the Commission set benchmark by approximately 35 percent in PY 2009. This reduction occurred because Southwest Gas' CBO's were unable to ramp up quickly enough, since they were at the same time being inundated with American Recovery and Reinvestment Act (ARRA) funding.

Since that time, Southwest Gas' CBO's worked to increase their crews and equipment to meet the huge influx of funding from both the utilities and ARRA. By PY 2010, the ramp up was successfully underway and Southwest Gas treated 2,780 homes. Of those, 2,545 homes were weatherized. PY 2010 revealed a 94 percent increase in the actual number of homes weatherized from PY 2009; however, it still fell short of the

[16] Southwest Gas began installing all feasible program measures beginning in 2001.
[17] The Commission provided a budget and Southwest Gas calculated authorized number of homes based on the budget divided by 2010 average actual expenditures per home.

Commission authorized treated number of homes of 3,197 and 2,927 weatherized, or by approximately 13 percent. As of April 30, 2011, Southwest Gas has already treated 904 homes and weatherized 789 homes under PY 2011.

Southwest Gas estimated the energy savings for PY 2010-2014 based on the actual measures installed during PY 2010 and the number of homes assisted during PY 2008-2011. The utility expects its ESAP to produce a cumulative savings of 678,998 therms over five years. Table B-3 shows the estimates per year for energy savings. Southwest Gas utilized the energy savings documented in the recently released *Impact Evaluation of the 2009 California Low Income Energy Efficiency Program* draft report to calculate its 2012 – 2014 energy savings estimates. These estimates take into account the increased number of estimated homes weatherized, and the additional energy savings achieved should the four proposed measures be added to Southwest Gas' program. The four new measures were selected based on their large impact to energy savings, and exhibit Southwest Gas' continued efforts to ensure the energy savings achieved by the program adequately justifies the expenditures of its rate payers in California.

There are some unique issues in Southwest Gas' service areas that make 100 percent penetration difficult for the program. Southwest Gas' northern California service territory and Big Bear in its southern California service area are primarily resort/vacation areas, and are comprised of approximately 46 percent secondary households. Many customers that would income-qualify for the CARE program and the ESAP are seasonal residents and do not reside in the area year-round, thereby negating their qualification status. Many potential customers have temporary or undocumented employment, which makes it difficult to certify appropriate income documentation. Furthermore, customers sometimes have difficulty producing proof of income for all jobs held during a 12-month period. This information is required up-front for the ESAP, because it is not a self-certifying program. Also, the cost-of-living and average income in the Lake Tahoe area is higher than much of the state. Therefore, the poverty level is higher than standard.

Program costs are much higher in northern California, compared to southern California. Also, the costs are much higher because Lake Tahoe is located in a remote resort area and has an extremely cold climate. The severe winter weather conditions prevent the installation of measures year-round for the area. Work can usually only be completed from May through September. Project Go, Southwest Gas' sub-contractor for the ESAP, is the closest CBO in the vicinity and is located approximately 100 miles away in Roseville. It has been difficult in past years to find licensed, qualified and willing local contractors to provide the appliance repair and replacement work necessary to complete some jobs. Southwest Gas will continue to work to identify additional contractors interested in performing work in its harder to reach service areas.

2. BUDGET

To fund its ESAP plans for PY 2012-2014, Southwest Gas proposes annual budgets of $3.025 million for PY 2012, $3.390 million for 2013, and $3.795 million for 2014, as outlined in Table B-4 and Table B-5. The proposed budget for PY 2012 does not include carry-over from 2011, as Southwest Gas proposes an adjusted budget for 2011 in Table B-5 that is achievable and should eliminate future carry-over. Southwest Gas requests permission to adopt the 2011 Utility Estimated budget amount in Table B-5 to eliminate a nearly $2 million carry-over to 2012. Southwest Gas anticipates spending all of the proposed budgeted funds for PY 2012 - 2014. Annual increases in the ESAP budget will allow Southwest Gas to assist more customers and will achieve long-term and enduring energy savings. The increase will also accomplish the programmatic initiative, as applicable to the SMJU's. The above budgets account for expected increases in costs such as labor, materials, mileage and fuel.

While Southwest Gas achieved many of the goals detailed in D.08-12-019, Southwest Gas did not meet the budgeted goal in each of the three years and thus incurred large carry-overs for each calendar year. The budget provided in Table B-4 and B-5 reflects the amount of carry-over from each calendar year. Southwest Gas met with its CBO's on numerous occasions to better understand the obstacles to meeting the expenditure goals, and was informed each time that they were not able to ramp up quickly enough in 2009 and that the additional ARRA funding in 2010 and 2011 made it difficult to spend as much per home as was previously possible. While this allowed more homes to be weatherized, the monetary expenditures did not match the Commission's expectations.

Table B-6 provides actual expenditures for administrative expenses and approved budgets from PY 2009 and 2010 by line item. The tables are consistent with those set forth in the SMJU's Accounting and Reporting Requirements workshop. The 2011 approved administrative budget is also included. Beginning in PY 2007, Southwest Gas includes Appliance Replacement and Energy Education costs in the Weatherization category of Program costs. The costs were approved in D.08-12-019[18] and are shown in Table B-4 and B-5.

The Commission permits ESAP funds to be carried-over from previous PY, as directed in D.03-03-007.[19] Fund shifting among the budget categories of Program costs is also allowed to appropriately meet the needs of low-income customers.[20] Southwest Gas carried-over $1.528 million from PY 2010 to PY 2011. Carry-over budgets from PY 2009 and 2010 are shown in Table B-5, along with expected carry-over funds during PY 2011. Unspent costs for each category have been rolled over to the same category for each new

[18] D.08-12-019, Ordering Paragraph 25, page 49.
[19] Decision03-03-007 (Application 02-07-009, et al.), Final Opinion: Post-2002 Low-Income Assistance Programs For Small And Multi-Jurisdictional Utilities, Findings of Facts 27, page 27.
[20] D.03-03-007, Conclusions of Law 11, page 55.

program year. However, Southwest Gas proposes a modified estimated budget for 2011 that will eliminate carry-over to 2012.

In years where energy consumption is of great concern to the public, it is easier to draw attention to the ESAP. In other years, there may be a lessened interest. While every effort is made to spend the annual budgets, these programs require time to ramp-up or ramp-down when policies or interests change. Carry-over occurs because it takes time for the utilities and their contractors to adjust to the changes.

Southwest Gas anticipates that when the ARRA funding ends in March 2012, the CBO's will have crews and equipment available for additional funding from the utilities. Southwest Gas proposes continued increases in spending to fill the void that will be created upon the sunset of ARRA funding. The CBO's have indicated that the budgets proposed by Southwest Gas are both achievable and sustainable in Southwest's efforts to achieve the goal of 100 percent participation by 2020. Additionally, by gradually increasing its budgets over the three year planning horizon, the increased funds will negate the need for layoffs that the CBO's may otherwise experience in light of reduced federal spending on weatherization.

Flexibility to shift funds among ESAP categories and program years is critical to the success of the program. Fund shifting among budget categories within the ESAP allows the utility to make program adjustments and modifications expeditiously and eliminate potential delays. Southwest Gas requests the continuation of authority for fund shifting within the ESAP budget categories in PY 2012-2014. One example of the proposed fund shifting is to use additional funds for outreach if that budget category is exceeded before the end of the program year. Often times it is difficult to estimate how many of each measure will be installed and therefore there may be an abundance of funds in one budget category. To expand outreach efforts utilizing already budgeted funds from another category allows for seamless promotion of the program and allows more flexibility to continue to achieve the Strategic Plan goals.

C. PROGRAM DESIGN

1. PROGRAM DELIVERY, PORTFOLIO COMPOSITION, AND LEVERAGING

Southwest Gas' ESAP is currently designed to offer energy education, weatherization, and appliance repair/replacement, when applicable. Available weatherization measures for Southwest Gas' program are provided in Table B-7, along with four newly proposed measures including: high efficiency clothes washers, a furnace clean and tune measure, forced air unit (FAU) standing pilot light conversions, and thermostatic shower valves. The new measures requested for inclusion in PY 2012 - 2014 will assist in achieving additional energy savings. Southwest Gas also requests the continued installation of all feasible measures in customers' homes as defined by the assessment process.

Multiple sub-measures are included under the minor home repairs for helping reduce infiltration (e.g., window repairs), mitigate a hazardous condition, or accommodate the installation of allowable program measures (e.g., attic venting). The ESAP also assists customers with appliance repair/replacement, when applicable, during the weatherization process. Water heaters and furnaces may be repaired or replaced in owner-occupied households of income-qualified customers. These repairs and replacements are provided only when necessary to mitigate natural gas appliance testing (NGAT) failures, pursuant to the installation of infiltration-reduction measures.

NGAT is conducted for all homes that receive infiltration reduction measures and have at least one natural gas appliance affecting the living space. The repair and replacement of a natural gas furnace or water heater also requires appliance testing.

Southwest Gas also plans to continue its current energy education process into PY 2012-2014. Energy education includes: ESAP program and weatherization guides;

customer commitment forms with energy saving goals customized to each household's needs; tracking sheets for monthly energy usage (therms/dollars); explanation of how to read and understand the natural gas bill; collateral discussing energy-saving tips and Southwest Gas' available low-income assistance programs (CARE, ESAP and Medical Baseline); and natural gas safety. Southwest Gas' ESAP contractors collaborate with customers to design energy goals and practices during the one-on-one education component.

Southwest Gas has received some feedback from customers in regards to the ESAP enrollment process. Some customers have privacy concerns and worry that the level of information which they are required to provide could be used improperly or mishandled by the contractor. As mentioned earlier, many potential customers also have temporary/undocumented employment, along with difficulty producing proof of income for all jobs held during a 12-month period, which makes it difficult for Southwest Gas and its contractors to certify appropriate income documentation. Income documentation is required up-front for the ESAP because the program is not a self-certifying program, like the CARE program.

Also, as stated previously, the cost-of-living and average income in the Tahoe/Truckee area is also higher than much of the state. Therefore, even the poverty level is higher than standard. Promoting the program to customers within the prescribed income levels in northern California often limits the outreach contractor to renters rather than homeowners. Thus, the measures available are often restricted to those which are perceived as "minimal" to the average renter. Some renters do not want to submit all the required "proofs" of qualification. Landlords/property owners rarely refuse to permit ESAP participation for their renters. But, it is often difficult to complete applications for renters who have minimal or incomplete contact information for the property owners.

Southwest Gas will continue to monitor the recently published *California Low Income Energy Efficiency Program 2009 – 2010 Process Evaluation* and work with its CBO's to incorporate ideas used to clarify language about co-payments on property owner waiver forms to address property owner concerns. Eliminating the barriers with property owners and educating on the energy benefits available to property owners via the ESAP may help to increase participation by renters.

In PY 2012 – 2014, Southwest Gas will focus additional efforts on intake forms to streamline and eliminate redundancy of data collection, along with looking at ways to capture more robust descriptions of homes to eliminate the need for multiple visits to homes. Part of the process of reviewing all forms will include the electronic formatting of these forms for use on table PCs. Southwest Gas' CBO in its southern California service territory is already utilizing tablet PCs and will continue to evaluate ways to simplify the ESAP enrollment process.

Southwest Gas exclusively utilizes CBO's to perform weatherization installation work for its ESAP in its California service territories. Southwest Gas' experience with its CBO's has been very positive, largely due to the CBO's ability to leverage their Low Income Home Energy Assistance Program (LIHEAP) funds with Southwest Gas' ESAP funds. The LIHEAP program offers some measures that are not available under the utilities' ESAP. Leveraging these funds allows Southwest Gas' customers the ability to acquire the maximum amount of energy efficient measures in their homes, reducing missed opportunities and eliminating the need for multiple outreach efforts.

Southwest Gas partners with Sierra Pacific in its northern California service area, which allows the utilities to jointly operate the ESAP. Liberty Energy acquired Sierra Pacific's California electric distribution facilities and is already working jointly with Southwest Gas to continue its current program in PY 2011 – 2014. The utilities contract with the same program administrator, Richard Heath and Associates (RHA), to ensure customers receive all feasible electric and gas measures available. RHA sub-contracts with Project Go (CBO) to complete the weatherization work. The utilities also achieve economies of scale with program outreach efforts and administration fees because efforts are streamlined and not duplicated.

Southern California Edison is the electric provider in the majority of Southwest Gas' southern California service area. Southwest Gas and Southern California Edison utilize the same CBO, Community Action Partnership of San Bernardino County (CAPSBC). Bear Valley Electric, located in the Big Bear area, also contracts with CAPSBC for their Energy Savings Assistance Program. CAPSBC thoroughly reviews and determines the measures applicable for installation in every home assessed and the utilities are invoiced accordingly.

Additionally, Southwest Gas contracts with Richard Heath and Associates (RHA) to conduct post-installation inspections for feasible measures installed in all of its service area. All ceiling and furnace repair/replacement jobs are inspected and random verifications are conducted for a sample of dwelling units. Sample sizes depend on the contractor's pass rates and the total number of units assisted by the contractor, as outlined in the 2010 P&P Manual.

Southwest Gas plans to continue its program delivery as described above for PY 2012-2014. Southwest Gas proposes to continue: 1) tracking the reasons why customers choose not to participate in the ESAP; and 2) send a follow-up letter to ESAP recipients encouraging continued energy savings. Tracking customers' unwillingness to participate has been helpful in documenting the households the utility attempted to assist through the program. Furthermore, reminding customers to practice energy-saving methods in their home will help achieve continued energy savings overall for California.

Southwest Gas has assisted 12,581 homes since PY 2001 and plans to assist a total of 27,436 homes by the end of PY 2014. Southwest Gas' proposed program design will allow the utility to achieve this goal, along with saving energy, reducing emissions, and lowering customer bills.

D. OUTREACH

Southwest Gas promotes the ESAP through multiple communication channels. Current outreach efforts include on-hold messages, informational web page (www.swgas.com/efficiency/ca), direct mailings, customer letters, collateral (brochures and posters), and community outreach events. Phone calls are also made to CARE customers that have not previously received ESAP services. In addition, Southwest Gas' ESAP contractors conduct their own outreach efforts, in conjunction with those provided by Southwest Gas. Southwest Gas has primarily cross-referenced CARE program customers for program participation in the past and plans to continue this practice in the future.

Internally, Southwest Gas has been working with the CARE program to integrate ESAP and CARE program information into joint outreach materials, saving both time and money. This strategy includes: coordinating marketing lists and customers enrolled in CARE that are likely to qualify for the ESAP; attending common community events; and coordinating enrollments in both programs.

Currently, much of Southwest Gas' marketing and outreach is performed by ESAP CBO's. The CBO's are responsible for enrolling ESAP participants to meet their contract goals. Southwest Gas provides them with a database containing current CARE customers in their contract area. This database is updated on an as-needed basis to include new CARE enrollments as well as other new Southwest Gas customer account information (such as new service, service stops and moves). In addition, the program database notes which customers have participated previously and are thus ineligible to receive Energy Savings Assistance services.

Southwest Gas supports its contractors in these successful marketing and outreach strategies. Southwest Gas' CARE program ended 2010 with a 95 percent penetration rate among eligible low income customers. It is prudent to start with the CARE list because those customers are receiving a subsidized rate discount, and it will help fund the expansion of the CARE program and the ESAP to eliminate as much subsidy as possible for inefficient energy use through efficiency improvements.

Rather than duplicating effort and cost, Southwest Gas has combined its marketing and outreach with its highly successful CARE program outreach. To increase participation in the ESAP, Southwest Gas leverages CARE and ESAP messaging strategies to reach the same targeted customer segment while incurring only incremental costs. For example, CARE outreach efforts reach customers through a variety of activities including community outreach, direct mailings and bill inserts, participation in local community events, presentations, and paid media (including advertising in local and in-language newspapers). Outreach materials are translated into Spanish and available in large print, when applicable.

By leveraging outreach with CARE, the ESAP also takes full advantage of CARE's successful low income customer segmentation and targeted marketing strategies. CARE outreach targets seniors, disabled customers, families, ethnic populations, rural and urban customers, and other low income Southwest Gas customers.

In 2011, as detailed in the CARE outreach section of this application, Southwest Gas implemented a new letter to all new CARE enrolled customers who have not previously participated in the ESAP. The letter promotes the energy savings benefits of the ESAP and educates the customer on how they may enroll. Southwest Gas is continually reviewing its business process to identify cost-effective outreach methods that will increase participation in the ESAP.

Southwest Gas plans to continue its high energy usage outreach initiative implemented during 2008 into PY 2012 – 2014. The initiative targets high usage customers whose gas usage is above the baseline. Southwest Gas analyzes the usage patterns of its residential customers to identify those customers that exceed baseline therm usage. A postcard is sent to these customers notifying them about the ESAP and how it helps save energy and lower utility bills. Customers may be high energy users due to medical conditions or the number of people living in an individual household.

Southwest Gas' outreach plans for PY 2012-2014 build on the success of its current ESAP outreach strategies. Southwest Gas plans to continue all of the above-mentioned outreach activities for PY 2012-2014. These efforts include but are not limited to: 1) accepting online requests for program participation; 2) sending direct mailings to targeted customers that are: a) late paying their bills or have previously been disconnected for non-payment; b) participants in the Medical Baseline program; and c) Energy Share recipients (Southwest Gas' donation-funded bill assistance program); 3) participation in community affairs events; 4) collaboration with local organizations to identify low income customers; and 5) leveraging outreach efforts in conjunction with Southwest Gas' other low income programs.

Customers visiting Southwest Gas' website have the opportunity to complete an online request form that will be electronically transmitted to ESAP personnel. Customers receive a call back from a program representative to explain the program and begin the enrollment process.

Southwest Gas proposes increased annual spending for PY 2012-2014 on outreach activities, primarily focusing on direct mail and collateral. Actual costs will be recorded in

Southwest Gas' Low-Income Assistance Programs Annual Report.[21] All of these outreach efforts will assist Southwest Gas in meeting its program participation goals by targeting specific population sectors and segments.

As discussed in the CARE outreach portion of the report, Southwest Gas will continue to work with the Energy Division and the Commission in their efforts to develop a statewide tagline for immediate use with its "Energy Savings Assistance Program" name and to develop marketing plans for a more aggressive statewide marketing campaign to promote greater program awareness and participation for future phases of the program.

Significant barriers to higher penetration rates in Southwest Gas' service territory continue to be a lack of people home during the day, immigration concerns for non-native speakers, and the misimpression that any printed material is actually an advertisement.

Southwest Gas tracks the effectiveness of each outreach method, when possible. Extensive programming enhancements would be required to track the response of all methods, resulting in larger administrative costs. Direct mailers (postcard and flyers) and collateral pieces (brochures and posters) are currently Southwest Gas' most successful outreach methods. Program promotion on Southwest Gas' website and by the local ESAP contractors has also been very effective.

E. OTHER ENERGY SAVINGS ASSISTANCE PROGRAM ELEMENTS

Southwest Gas will continue existing policies and practices currently in place to achieve and surpass its ESAP goals. Southwest Gas plans to continue to strengthen its relationship with statewide and local organizations in its ongoing effort to identify leveraging opportunities.

[21] D.05-07-014, Ordering paragraph 5, page 67.

IV. REVENUE REQUIREMENT AND RATE IMPACTS

Southwest Gas reports its CARE and ESAP costs annually on May 1 under R.4-01-006 in the Low-Income Assistance Programs Annual Report. [22]

A. SUBSIDY AND BENEFIT COSTS

Southwest Gas' CARE program costs are recovered from non-CARE participating customers on an equal cents per therm basis through the non-CARE PPP surcharge. CARE program rates are calculated by dividing the program cost including: 1) outreach and administrative costs, 2) estimated CARE benefits and 3) the current amount in Southwest Gas' CARE balancing account, by the three-year average gas volumes excluding CARE customer volumes and other volumes exempted by statute from the PPP surcharge.[23] Southwest Gas' ESAP costs are recovered from non-CARE participating customers on an equal cents per therm basis through the CARE PPP surcharge.

Southwest Gas calculates discrete non-CARE surcharges for its southern California division and its northern California division, including the South Lake Tahoe district, to reflect the significantly different CARE program costs and effective rate between the divisions. Southwest Gas' CARE surcharge is calculated on a state-wide basis. Southwest Gas does not propose to change the calculation of its non-CARE and CARE surcharges.

Southwest Gas is required to submit an Advice Letter filing by October 31 of each year reflecting the calculation of its PPP surcharge to be made effective January 1 of the subsequent year. Southwest Gas' currently effective and estimated non-CARE and CARE surcharges are reflected in Table C-1 in Appendix C.

[22] D.03-03-007, Ordering Paragraph 12, page 63; D.05-07-014, Ordering Paragraph 5, page 67; and the Assigned Commissioner Ruling issued on May 2, 2008.
[23] Decision 04-08-010 (Rulemaking 02-10-001) Opinion Regarding Implementation of Assembly Bill 1002, Establishing a Natural Gas Surcharge, Ordering Paragraph 22, page 51.

B. BALANCING ACCOUNT

Southwest Gas maintains a balancing account for its CARE and ESAP costs. The CARE balancing account is a two-way account and captures the difference, including interest, between Southwest Gas' actual CARE outreach and administrative costs and CARE program benefits and amounts collected thru its PPP surcharge to recover these costs. The ESAP balancing account is a one-way account and captures the difference, including interest, between Southwest Gas' actual ESAP expenditures and amounts collected thru its PPP surcharge to recover these costs.

Southwest Gas does not propose any changes to its authorized PPP balancing accounts.

V. REQUEST TO CONTINUE FUNDING AND ALLOW FOR FUND SHIFTING

If the Commission should be delayed in issuing a decision on Southwest Gas' PY 2012-2014 Low-Income Assistance Programs Budget Application, Southwest Gas requests interim authorization from the Commission to continue ESAP and CARE program activities into PY 2012 using the PY 2012 proposed program funds. Accomplishments achieved during this interim period will be counted toward 2012 program results.

Southwest Gas also requests the Commission continue to permit fund shifting by category for ESAP, when necessary.

VI. CONCLUSION

Southwest Gas requests the Commission authorize the CARE and ESAP plans and budgets for the PY 2012-2014 budget cycle as proposed in this Application.

VII. STATUTORY AND PROCEDURAL REQUIREMENTS

In compliance with the Commission's Rules of Practice and Procedure (Rules), Southwest Gas addresses below the proposed category for this proceeding, the need for hearing, the issues to be considered, a proposed schedule, and the general requirements for applications set forth in the Rules.

A. RULE 2.1(a) and (b): General Information

This Application is made pursuant to Sections 451, 454 728, 729 739.1 and 739.2 of the Public Utilities Code of the State of California; the Guidance Document referenced herein; the Commission's Rules of Practice and Procedure; and the other relevant prior decisions, orders, and resolutions of the Commission.

The exact legal name of the Applicant is Southwest Gas Corporation.

Southwest Gas is a corporation duly organized and existing under the laws of the state of California. Southwest Gas is a corporation subject to the jurisdiction of the Commission and is engaged in the business of providing natural gas service as a public utility in southern and northern California. Southwest Gas also is engaged in the intrastate transmission, distribution and sale of natural gas as a public utility in certain portions of the states of Nevada and Arizona.

Southwest Gas' principal place of business is located at 5241 Spring Mountain Road, Las Vegas, Nevada 89150-0002, and Southwest Gas' telephone number is (702) 876-7011. Communications regarding this Application should be addressed to:

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B. RULE 2.1(c) : Proposed Categorization and Need for Hearing

In accordance with Rule 2.1(c) and Article 7 of the Rules, Southwest Gas proposes that this Application be categorized as a “ratesetting” proceeding. Southwest Gas does not believe that hearings are necessary, but proposes the following procedural calendar in the event hearings are required. Southwest Gas has proposed expedited dates to ensure PY 2012 budgets are approved prior to January 1, 2012:

June 15, 2011	Application filed
July 15, 2011	Protest/responses to application due
July 25, 2011	Prehearing Conference
August 2, 2011	Response to Protests (if necessary)
August 22-23, 2001	Hearings
September 6, 2011	Opening Briefs
September 13, 2011	Reply Briefs
September 26, 2011	ALJ Proposed Decision
October 7, 2011	Comments on Proposed Decision
October 12, 2011	Reply Comments on Proposed Decision
October 20, 2011	Commission Approval of Final Decision
October 31, 2011	Public Purpose Program Surcharges for January 1, 2012 effective

C. RULE 2.2: Organization and Qualification to Transact Business

A copy of Southwest Gas’ current Articles of Incorporation, as amended and restated, and certified by the California Secretary of State, was filed with the Commission as Exhibit A to A.10-04-008 and is hereby incorporated in this Application by this reference.

D. RULE 3.2(a): Applications Resulting in Increased Rates

(1) A balance sheet and income statement, as of the latest available date of December 31, 2010, are attached hereto as Appendix D.

(2) Southwest Gas' current rates and charges for gas service are contained in its respective gas tariffs and schedules on file with the Commission.

(3) The revenue changes proposed in this Application from present revenues is less than one percent.

(4) Because this is not a general rate application, the requirements of Rule 3.2(a)(4) are not applicable.

(5) A copy of Southwest Gas' Summary of Earnings ending March 31, 2011 is attached hereto as Appendix E.

(6) Because this is not a general rate application, the requirements of Rule 3.2(a)(7) are not applicable.

(7) Because this is not a general rate application, the requirements of Rule 3.2(a)(8) are not applicable.

(8) In accordance with Rule 3.2(a)(10), this application seeks only to pass through to customers the costs incurred by Southwest Gas in connection with its CARE and ESAP programs.

E. RULE 3.2 (b), (c), and (d): Notice Requirements

Within ten days after filing this Application, Southwest Gas will: 1) mail notice of the Application to the state of California, the cities and counties in Southwest Gas' service territories, and the other parties and interested persons listed in the attached Certificate of Service; and 2) publish notice of the Application at least once in a newspaper of general circulation in each of the counties in Southwest Gas' affected California service territories. Additionally, within forty-five days, Southwest Gas will notify its customers by including a notice of the Application within their regular bills.

VIII. REQUEST FOR RELIEF

For the all the reasons set forth in this Application, including the supporting Appendices, Southwest Gas respectfully asks the Commission to:

(1) Approve the requested funding levels and program modifications for its low-income assistance programs for PY 2012-2014 as proposed herein;

(2) Grant interim authorization to continue CARE and ESAP program activities into PY 2012 utilizing the PY 2012 proposed program funds should there be a delay in issuing a decision on Southwest Gas' Application; and

(3) Grant such further relief as the Commission deems appropriate.

Dated at Las Vegas, Nevada this 15th day of June, 2011.

SOUTHWEST GAS CORPORATION

/s/ John P. Hester

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VERIFICATION

John P. Hester declares the following:

I am an officer of Southwest Gas Corporation and am authorized to make this verification on the corporation's behalf, in accordance with Rule 1.11 of the Commission's Rules of Practice and Procedure, and I make this verification for that reason. I have read the foregoing Application and am informed and believe that the matters stated therein concerning Southwest Gas Corporation are true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on June 15, 2011, at Las Vegas, Nevada.

/s/ John P. Hester
John P. Hester
Senior Vice President
Regulatory Affairs and Energy Resources

Appendix A

PY 2012 - 2014 CARE Program Estimated Participation
Southwest Gas Corporation
Table A-1

	Total Enrolled 12-31-10	Total Enrolled Through April 2011	PY 2011 Estimated Eligible	Estimated Net PY 2011 Enrollments	Estimated Year End PY 2011 Participation	Estimated PY 2011 Goal Rate	Estimated Net PY 2012 Enrollments	Estimated Year End PY 2012 Participation	Estimated PY 2012 Goal Rate	Estimated Net PY 2013 Enrollments	Estimated Year End PY 2013 Participation	Estimated PY 2013 Goal Rate	Estimated Net PY 2013 Enrollments	Estimated Year End PY 2013 Participation	Estimated PY 2013 Goal Rate
(Source)	(1)	5/1/2011 RD Report	(2)	(3)	(col.B+E)	(col F/D)	(2)	(col F+H)	(col I/D)	(2)	(col. I+K)	(col. L/D)	(2)	(col. L+N)	(col. O/D)
SWG	50,888	53,569	59,161	5,386	56,274	95%	823	57,097	97%	723	57,820	98%	714	58,534	99%

(1) CARE Annual Reports dated 5/1/2011
(2) Each utility's estimate based on eligibility rates filed
(3) Most recent estimates of net enrollments

SMJU PY 2009 - 2014 CARE Program Budget (Actual, Estimated, and Proposed)
Southwest Gas Corporation
Table A-2

CARE Budget Categories	2009 Authorized	2009 Recorded	2010 Authorized	2010 Recorded	2011 Authorized	2011 Estimated	2012 Proposed	2013 Proposed	2014 Proposed
Southwest Gas Corporation									
Outreach	$ 100,000	$ 102,359	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Pro./ Certification / and Verification	$ 96,000	$ 57,894	$ 97,000	$ 50,656	$ 98,000	$ 65,000	$ 65,000	$ 70,000	$ 70,000
General	$ 26,000	$ 22,983	$ 28,000	$ 25,593	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000
Total Expenses	$ 222,000	$ 183,235	$ 225,000	$ 176,249	$ 228,000	$ 195,000	$ 195,000	$ 200,000	$ 200,000
CARE Program Discount	$ 8,519,319	$ 5,348,298	$ 8,670,624	$ 6,525,311	$ 8,845,624	$ 11,170,359	$ 11,442,359	$ 11,702,105	$ 11,964,647
Total Program Costs	$ 8,741,319	$ 5,531,533	$ 8,895,624	$ 6,701,560	$ 9,073,624	$ 11,365,359	$ 11,637,359	$ 11,902,105	$ 12,164,647

SMJU PY 2009 - 2011 CARE Program Budgets and Expenditures
Southwest Gas Corporation
Table A-3

Description	2009 [1] Authorized	2009 Recorded	2010 [1] Authorized	2010 Recorded	2011 [1] Authorized	2011 Estimated
Outreach						
Capitation Fees		$ 6,252		$ 2,796		
Applications/Inserts		$ 46,503		$ 39,630		
Media						
Other Outreach [2]		$ 49,604		$ 15,660		
Other Outreach subsumed in GRC [3]						
Subtotal Outreach	**$ 100,000**	**$ 102,359**	**$ 100,000**	**$ 58,086**	**$ 100,000**	**$ 100,000**
Processing/Certification/Verification						
Internal		$ 19,865.00		$ 21,385		
Outside Services		$ 38,029.00		$ 29,271		
Subtotal Processing/Certification/Verification	**$ 96,000**	**$ 57,894**	**$ 97,000**	**$ 50,656**	**$ 98,000**	**$ 65,000**
General						
Billing System/Programming		$ 938				
Consulting Services						
Regulatory Compliance						
Travel		1,796		$ 1,486		
Filings						
Labor Costs (including overhead)						
Incremental		19,147		$ 23,642		
Other general (please specify) [2]		1,102		$ 465		
General costs subsumed in GRC						
Subtotal General	**$ 26,000**	**$ 22,983**	**$ 28,000**	**$ 25,593**	**$ 30,000**	**$ 30,000**
TOTAL PROGRAM COSTS	**$ 222,000**	**$ 183,236**	**$ 225,000**	**$ 134,335**	**$ 228,000**	**$ 195,000**
CARE Program Discount	**$ 8,519,319**	**$ 5,348,298**	**$ 8,670,624**	**$ 6,525,311**	**$ 8,845,624**	**$ 11,170,359**
GRAND TOTAL PROGRAM COSTS	**$ 8,741,319**	**$ 5,531,534**	**$ 8,895,624**	**$ 6,659,646**	**$ 9,073,624**	**$ 11,365,359**
[1] As approved in D. 08-12-019.	$ 3,209,785		$ 2,235,978			

[2] Other Outreach/General costs are defined as any direct costs that do not fall into the listed subcategories.

[3] For purposes of estimating the costs subsumed in general rates, Southwest included costs that would be avoided should the CARE/LIEE programs be eliminated.

Average Costs for CARE Program Enrolled Customers
Southwest Gas Corporation
Table A-4

AVERAGE OUTREACH COSTS

	2009	2010	2011	2012	2013	2014
Total CARE Customers [1]	44,680	50,888	56,274	57,097	57,820	58,534
Outreach [2]	$ 102,359	$ 58,086	$ 100,000	$ 100,000	$ 100,000	$ 100,000
Average Program Costs	**$ 2.29**	**$ 1.14**	**$ 1.78**	**$ 1.75**	**$ 1.73**	**$ 1.71**

AVERAGE PROCESSING/CERTIFICATION/VERIFICATION COSTS

	2009	2010	2011	2012	2013	2014
Total CARE Customers [1]	44,680	50,888	56,274	57,097	57,820	58,534
Proc./ Certification/ and Verification [2]	$ 57,894	$ 50,656	$ 65,000	$ 65,000	$ 70,000	$ 70,000
Average Program Costs	**$ 1.30**	**$ 1.00**	**$ 1.16**	**$ 1.14**	**$ 1.21**	**$ 1.20**

AVERAGE GENERAL ADMINISTRATION COSTS

	2009	2010	2011	2012	2013	2014
Total CARE Customers [1]	44,680	50,888	56,274	57,097	57,820	58,534
General [2]	**$ 22,983**	**$ 25,593**	**$ 30,000**	**$ 30,000**	**$ 30,000**	**$ 30,000**
Average Program Costs	**$ 0.51**	**$ 0.50**	**$ 0.53**	**$ 0.53**	**$ 0.52**	**$ 0.51**

[1] As of December 31 each year.

[2] Costs for PY 2009-2010 reflect actuals. Costs for PY 2011-2014 are proposed.

Appendix B

PY 2009 - 2014 Energy Savings Assistance Program Goals
Southwest Gas Corporation
Table B-1

Energy Savings Assistance Program Treated (T) and Weatherized (W) Homes																		
Utility	2009 Authorized [1]		2009 Actual		2010 Authorized [1]		2010 Actual		2011 Authorized [1]		2011 Estimated		2012 Utility Projected		2013 Utility Projected		2014 Utility Projected	
	T	W	T	W	T	W	T	W	T	W	T	W	T	W	T	W	T	W
Southwest Gas	2,207	2,057	1,436	1,338	3,197	2,927	2,780	2,545	3,650	3,341	3,110	2,847	3,479	3,185	3,900	3,570	4,366	3,997

[1] D.08-12-019 provided an authorized annual budget and did not specify the number of authorized treated or weatherized homes. Southwest Gas calculated authorized treated and weatherized homes using corresponding calendar year actual program costs divided by the actual number of treated and weatherized homes. 2011 authorized figures were calucated using 2010 program year average cost per home.

PY 2011 - 2014 Energy Savings Assistance Program Estimated Eligible
Southwest Gas Corporation
Table B-2

	2011	2012	2013	2014
CARE Estimated Eligible	56,274	57,097	57,820	58,534
10% Unwilling to Participate [1]	5,627	5,710	5,782	5,853
# of Homes Assisted [2]	12,581	15,691	19,171	23,071
Total Eligible	**38,066**	**35,696**	**32,867**	**29,610**

[1] Per the KEMA Needs Assessment, as outlined in the IOUs' 2009-2011 low-income budget applications.

[2] As of 2001.

PY 2010- 2014 Energy Savings Assistance Program Annual Estimated Energy Savings
Southwest Gas Corporation
Table B-3

Program Year	2010	2011	2012	2013	2014	Total
Energy Savings in therms [1]	105,948	120,674	133,982	150,251	168,143	678,998

[1] Energy Savings for PY 2010 reflects estimated savings from actual installed measures. Energy Savings for PY 2011-2014 were estimated based on the measures expected to be installed annually.

PY 2010 - 2014 Energy Savings Assistance Program Budgets
Southwest Gas Corporation
Table B-4

Utility	2010 Adopted	2010 Carry Over (from 2009)	2010 Total Budget [1]	2011 Adopted	2011 Carry Over (from 2010)	2011 Total Budget [2]	2011 Estimated	2012 Proposed	2013 Proposed	2014 Proposed
Southwest Gas										
Outreach	$ 44,295	$ 12,732	$ 57,029	$ 34,900	$ -	$ 34,900	$ 70,000	$ 75,000	$ 80,000	$ 85,000
Inspections	$ 99,665	$ 58,840	$ 158,504	$ 82,860	$ 145,810	$ 228,670	$ 55,000	$ 61,875	$ 69,609	$ 78,311
General	$ 199,329	$ 73,795	$ 273,124	$ 153,600	$ 175,595	$ 329,195	$ 105,000	$ 105,000	$ 110,000	$ 110,000
Subtotal Admin	$ 343,289	$ 145,367	$ 488,657	$ 271,360	$ 321,405	$ 592,765	$ 230,000	$ 241,875	$ 259,609	$ 273,311
Weatherization [3]	$ 2,436,244	$ 1,019,725	$ 3,455,968	$ 2,901,333	$ 1,207,102	$ 4,108,435	$ 2,473,753	$ 2,782,972	$ 3,130,843	$ 3,522,199
Measures										
Energy Education										
Subtotal Program	$ 2,436,244	$ 1,019,725	$ 3,455,968	$ 2,901,333	$ 1,207,102	$ 4,108,435	$ 2,473,753	$ 2,782,972	$ 3,130,843	$ 3,522,199
Total Program	$ 2,779,533	$ 1,165,092	$ 3,944,625	$ 3,172,693	$ 1,528,507	$ 4,701,200	$ 2,703,753	$ 3,024,847	$ 3,390,453	$ 3,795,509

[1] D.08-12-019 approved the 2009 - 2011 Energy Savings Assistance Program budget. A total of $1,165,093 was carried-over from 2009, as directed in D.03-03-007.
[2] D.08-12-019 approved the 2009 - 2011 Energy Savings Assistance Program budget totaling A total of $1,207,102 was carried-over from 2010, as directed in D.03-03-007.
[3] Weatherization includes Appliance Repair/Replacement and Education as approved in D.06-12-036.

PY 2010 - 2014 Energy Savings Assistance Program Budgets (Including Expected Carry Over Funds and Proposed Increases)
Southwest Gas Corporation
Table B-5

Utility	2010 Adopted	2010 Carry Over (from 2009)	2010 Total Budget	2010 Spent	2011 Carry Over (from 2010)	2011 Adopted	2011 Total Budget	2011 Utility Estimated	2011 Utility Estimated Unspent	2012 Utility Proposed	Increase (Decrease) over 2011 Proposed	2013 Utility Proposed	Increase (Decrease) over 2012 Proposed	2014 Utility Proposed	Increase (Decrease) over 2013 Proposed
Southwest Gas															
Outreach	$ 44,295	$ 12,732	$ 57,029	$ 57,700	$ -	$ 34,900	$ 34,900	$ 70,000	$ -	$ 75,000	$ 5,000	$ 80,000	$ 5,000	$ 85,000	$ 5,000
Inspections	$ 99,665	$ 58,840	$ 158,504	$ 12,694	$ 145,810	$ 82,860	$ 228,670	$ 55,000	$ (173,670)	$ 61,875	$ 6,875	$ 69,609	$ 7,734	$ 78,311	$ 8,701
General	$ 199,329	$ 73,795	$ 273,124	$ 97,529	$ 175,595	$ 153,600	$ 329,195	$ 105,000	$ (224,195)	$ 105,000	$ -	$ 110,000	$ 5,000	$ 110,000	$ -
Subtotal Admin	$ 343,289	$ 145,367	$ 488,657	$ 167,923	$ 321,405	$ 271,360	$ 592,765	$ 230,000	$ (362,765)	$ 241,875	$ 11,875	$ 259,609	$ 17,734	$ 273,311	$ 13,701
Weatherization [1]	$ 2,436,244	$ 1,019,725	$ 3,455,968	$ 2,248,866	$ 1,207,102	$ 2,901,333	$ 4,108,435	$ 2,473,753	$ (1,634,682)	$ 2,782,972	$ 309,219	$ 3,130,843	$ 347,871	$ 3,522,199	$ 391,355
Measures															
Energy Education															
Subtotal Program	$ 2,436,244	$ 1,019,725	$ 3,455,968	$ 2,248,866	$ 1,207,102	$ 2,901,333	$ 4,108,435	$ 2,473,753	$ (1,634,682)	$ 2,782,972	$ 309,219	$ 3,130,843	$ 347,871	$ 3,522,199	$ 391,355
Total Program	$ 2,779,533	$ 1,165,092	$ 3,944,625	$ 2,416,789	$ 1,528,507	$ 3,172,693	$ 4,701,200	$ 2,703,753	$ (1,997,447)	$ 3,024,847	$ 321,094	$ 3,390,453	$ 365,606	$ 3,795,509	$ 405,057

[1] Weatherization includes Appliance Repair/Replacement and Education as approved in D.06-12-036.

PY 2009 - 2011 Energy Savings Assistance Program Administrative Budgets and Expenditures
Southwest Gas Corporation
Table B-6

Description	2009 [1] Authorized	2009 Recorded Spent	2010 [2] Authorized	2010 Recorded Spent	2011 [3] Authorized	2011 Estimated
Outreach						
Applications/Inserts		$ 43,192		$ 251		
Other Outreach [4]		$ 10,351		$ 57,449		
Other Outreach subsumed in GRC		$ -				
Subtotal Outreach	**$ 66,275**	**$ 53,542**	**$ 57,029**	**$ 57,700**	**$ 34,900**	**$ 70,000**
Inspections						
Outside Services		$ 25,939		$ 12,694		
Subtotal Inspections	**$ 84,779**	**$ 25,939**	**$ 158,504**	**$ 12,694**	**$ 228,670**	**$ 55,000**
General						
Billing System/ Programming		$ 22,000		$ 11,000		
Consulting Services		$ 7,927		$ 896		
Regulatory Compliance						
Travel		$ 3,174		$ 1,119		
Filings						
Labor Costs (including overhead)						
Incremental		$ 85,587		$ 83,374		
Subsumed in General Rates						
Other Outside Services		$ -				
Other General [4]		$ 947		$ 1,143		
General costs subsumed in GRC						
Subtotal General	**$ 193,431**	**$ 119,696**	**$ 273,124**	**$ 97,529**	**$ 329,195**	**$ 105,000**
TOTAL LIEE ADMINISTRATIVE COSTS	**$ 344,485**	**$ 199,177**	**$ 488,657**	**$ 167,923**	**$ 592,765**	**$ 230,000**

[1] As approved in D.08-12-019 including carry over from 2008.
[2] As approved in D.08-12-019 including carry over from 2009.
[3] As approved in D.08-12-019 including carry over from 2010.
[4] Other Outreach/Other General costs are defined as any direct costs that do not fall into the listed subcategories.

PY 2012 - 2014 Energy Savings Assistance Program Eligible Measures
Southwest Gas Corporation
Table B-7

Measure [1]	Eligibility
Caulking	All Climate Zones and Residence Types
Ceiling Insulation	All Climate Zones and Residence Types
Duct Sealing/Testing	All Climate Zones for Single Family and Mobile Homes with gas space heating
Duct Wrap	Climate Zone 16 Only and All Residence Types
Evaporative Cooler Cover	All Climate Zones and Residence Types
Faucet Aerator	All Climate Zones and Residence Types
Floor Insulation	Climate Zone 16 Only and All Residence Types
Furnace Clean and Tune	All Climate Zones and Residence Types
FAU Standing Pilot Light Conversion	All Climate Zones and Residence Types
High Efficiency Clothes Washer	All Climate Zones and Residence Types
Low Flow Showerhead	All Climate Zones and Residence Types
Minor Home Repair [2]	All Climate Zones and Residence Types
Outlet Cover Plate Gaskets	All Climate Zones and Residence Types
Storm Windows	Climate Zone 16 Only and All Residence Types
Thermostatic Shower Valve	All Climate Zones and Residence Types
Water Heater Insulation	All Climate Zones and Residence Types
Water Heater Pipe Insulation	All Climate Zones and Residence Types
Weather-Stripping Doors	All Climate Zones and Residence Types

[1] Newly proposed measures for PY 2012-2014 are highlighted.

[2] Per Section 6 of the 2010 California Statewide LIEE Program P&P Manual, there are multiple submeasures included under minor home repairs. Minor home repairs are constituted by services that either reduce infiltration (e.g., window repairs), mitigate a hazardous condition, or accommodate the installation of Program measures (e.g., attic venting). Furnace repairs and replacements and water heater replacements fall under the category of minor home repairs, and are provided only when necessary to mitigate NGAT fails and pursuant to the installation of infiltration-reduction measures. For the purposes of qualifying a home for the Program, all minor home repairs (combined) count as a single measure.

PY 2009 - 2014 Energy Savings Assistance Program Average Outreach Costs
Southwest Gas Corporation
Table B-8

AVERAGE COSTS PER ENROLLED CUSTOMER

	2009	2010	2011	2012	2013	2014
Total LIEE Customers [1]	1,436	2,780	3,110	3,479	3,900	4,366
Outreach Costs [2]	$ 53,542	$ 57,700	$ 70,000	$ 75,000	$ 80,000	$ 85,000
Average Program Costs	**$ 37.29**	**$ 20.76**	**$ 22.51**	**$ 21.56**	**$ 20.51**	**$ 19.47**

AVERAGE COSTS PER RESIDENTIAL CUSTOMER

	2009	2010	2011	2012	2013	2014
Primary Residential Customers [1]	142,300	144,104	146,861	148,119	149,396	150,799
Outreach Costs [2]	$ 53,542	$ 57,700	$ 70,000	$ 75,000	$ 80,000	$ 85,000
Average Program Costs	**$ 0.376**	**$ 0.40**	**$ 0.48**	**$ 0.51**	**$ 0.54**	**$ 0.56**

[1] As of December 31 each year. Total customers for PY 2009-2010 reflect actuals. Total customers for PY 2011-2014 are estimated.

[2] Costs for PY 2009-2010 reflect acutals. Costs for PY 2011-2014 are proposed.

Appendix C

REVENUE REQUIREMENT AND RATE IMPACTS
EFFECTIVE and ESTIMATED NON-CARE and CARE SURCHARGE
SOUTHWEST GAS CORPORATION
TABLE C-1

	2011 Effective	2012 Estimated [1]	2013 Estimated [1]	2014 Estimated [1]
Non-CARE				
Northern	$0.04491	$0.03932	$0.04317	$0.04880
Southern	$0.16808	$0.17870	$0.18456	$0.18980
CARE				
Northern	$0.02550	$0.02270	$0.02544	$0.02848
Southern	$0.02550	$0.02270	$0.02544	$0.02848

[1] Excludes Research and Development costs which are approximately $300,000 annually.

Appendix D

SOUTHWEST GAS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)

December 31,	2010	2009
ASSETS		
Utility plant:		
Gas plant	$ 4,569,105	$ 4,418,286
Less: accumulated depreciation	(1,535,429)	(1,431,106)
Acquisition adjustments, net	1,271	1,451
Construction work in progress	37,489	45,872
Net utility plant (Note 2)	3,072,436	3,034,503
Other property and investments	134,648	115,860
Restricted cash	37,781	49,769
Current assets:		
Cash and cash equivalents	116,096	65,315
Accounts receivable, net of allowances (Note 3)	147,605	157,722
Accrued utility revenue	64,400	71,700
Income taxes receivable, net	21,514	8,549
Deferred income taxes (Note 12)	8,046	22,410
Deferred purchased gas costs (Note 4)	356	3,251
Prepaids and other current assets (Note 4)	87,877	88,685
Total current assets	445,894	417,632
Deferred charges and other assets (Notes 4 and 13)	293,434	288,528
Total assets	$ 3,984,193	$ 3,906,292

CONSOLIDATED BALANCE SHEETS - Continued

December 31,	2010	2009
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $1 par (authorized - 60,000,000 shares; issued and outstanding - 45,599,036 and 45,091,734 shares) (Note 11)	$ 47,229	$ 46,722
Additional paid-in capital	807,885	792,339
Accumulated other comprehensive income (loss), net (Note 5)	(30,784)	(22,250)
Retained earnings	343,131	285,316
Total Southwest Gas Corporation equity	1,167,461	1,102,127
Noncontrolling interest	(465)	(41)
Total equity	1,166,996	1,102,086
Subordinated debentures due to Southwest Gas Capital II (Note 6)	—	100,000
Long-term debt, less current maturities (Note 7)	1,124,681	1,169,357
Total capitalization	2,291,677	2,371,443
Commitments and contingencies (Note 9)		
Current liabilities:		
Current maturities of long-term debt (Note 7)	75,080	1,327
Accounts payable	165,536	158,856
Customer deposits	86,891	91,668
Accrued general taxes	40,438	40,868
Accrued interest	20,162	19,644
Deferred purchased gas costs (Note 4)	123,344	93,226
Other current liabilities (Notes 4 and 13)	85,510	68,641
Total current liabilities	596,961	474,230
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits (Note 12)	466,628	436,113
Taxes payable	1,234	3,079
Accumulated removal costs (Note 4)	211,000	189,000
Other deferred credits (Notes 4 and 10)	416,693	432,427
Total deferred income taxes and other credits	1,095,555	1,060,619
Total capitalization and liabilities	$3,984,193	$3,906,292

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

Year Ended December 31,	2010	2009	2008
Operating revenues:			
Gas operating revenues	$1,511,907	$1,614,843	$1,791,395
Construction revenues	318,464	278,981	353,348
Total operating revenues	1,830,371	1,893,824	2,144,743
Operating expenses:			
Net cost of gas sold	736,175	866,630	1,055,977
Operations and maintenance	354,943	348,942	338,660
Depreciation and amortization	190,463	190,082	193,719
Taxes other than income taxes	38,869	37,318	36,780
Construction expenses	277,804	242,461	311,745
Total operating expenses	1,598,254	1,685,433	1,936,881
Operating income	232,117	208,391	207,862
Other income and (expenses):			
Net interest deductions (Notes 7 and 8)	(75,677)	(75,270)	(84,919)
Net interest deductions on subordinated debentures (Note 6)	(1,912)	(7,731)	(7,729)
Other income (deductions)	3,850	6,645	(13,406)
Total other income and (expenses)	(73,739)	(76,356)	(106,054)
Income before income taxes	158,378	132,035	101,808
Income tax expense (Note 12)	54,925	44,917	40,835
Net income	103,453	87,118	60,973
Net income (loss) attributable to noncontrolling interest	(424)	(364)	—
Net income attributable to Southwest Gas Corporation	$ 103,877	$ 87,482	$ 60,973
Basic earnings per share (Note 15)	$ 2.29	$ 1.95	$ 1.40
Diluted earnings per share (Note 15)	$ 2.27	$ 1.94	$ 1.39
Average number of common shares outstanding	45,405	44,752	43,476
Average shares outstanding (assuming dilution)	45,823	45,062	43,775

The accompanying notes are an integral part of these statements.

Appendix E

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

Form 10-Q

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

For the quarterly period ended March 31, 2011

Commission File Number 1-7850

SOUTHWEST GAS CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes X No __

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

Large accelerated filer X Accelerated filer __ Non-accelerated filer __ Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes __ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Common Stock, $1 Par Value, 45,848,692 shares as of April 29, 2011.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

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

	MARCH 31, 2011	DECEMBER 31, 2010
ASSETS		
Utility plant:		
Gas plant	$ 4,597,189	$ 4,569,105
Less: accumulated depreciation	(1,560,134)	(1,535,429)
Acquisition adjustments, net	1,226	1,271
Construction work in progress	30,673	37,489
Net utility plant	3,068,954	3,072,436
Other property and investments	151,705	134,648
Restricted cash	37,781	37,781
Current assets:		
Cash and cash equivalents	108,375	116,096
Accounts receivable, net of allowances	169,037	147,605
Accrued utility revenue	41,500	64,400
Income taxes receivable, net	-	21,514
Deferred income taxes	10,028	8,046
Deferred purchased gas costs	-	356
Prepaids and other current assets	61,360	87,877
Total current assets	390,300	445,894
Deferred charges and other assets	293,194	293,434
Total assets	$ 3,941,934	$ 3,984,193
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, $1 par (authorized - 60,000,000 shares; issued and outstanding - 45,843,792 and 45,599,036 shares)	$ 47,474	$ 47,229
Additional paid-in capital	814,632	807,885
Accumulated other comprehensive income (loss), net	(29,867)	(30,784)
Retained earnings	399,339	343,131
Total Southwest Gas Corporation equity	1,231,578	1,167,461
Noncontrolling interest	(660)	(465)
Total equity	1,230,918	1,166,996
Long-term debt, less current maturities	1,122,694	1,124,681
Total capitalization	2,353,612	2,291,677
Current liabilities:		
Current maturities of long-term debt	-	75,080
Accounts payable	114,458	165,536
Customer deposits	88,067	86,891
Income taxes payable	15,389	-
Accrued general taxes	54,946	40,438
Accrued interest	19,541	20,162
Deferred purchased gas costs	90,836	123,344
Other current liabilities	94,453	85,510
Total current liabilities	477,690	596,961
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits	483,121	466,628
Taxes payable	2,577	1,234
Accumulated removal costs	216,000	211,000
Other deferred credits	408,934	416,693
Total deferred income taxes and other credits	1,110,632	1,095,555
Total capitalization and liabilities	$ 3,941,934	$ 3,984,193

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	2011	2010	2011	2010
Operating revenues:				
Gas operating revenues	$ 553,853	$ 614,509	$ 1,451,251	$ 1,594,246
Construction revenues	74,587	54,242	338,809	278,467
Total operating revenues	628,440	668,751	1,790,060	1,872,713
Operating expenses:				
Net cost of gas sold	283,806	352,255	667,726	823,075
Operations and maintenance	90,950	86,705	359,188	350,985
Depreciation and amortization	48,862	47,696	191,629	189,256
Taxes other than income taxes	9,869	9,766	38,972	36,973
Construction expenses	68,618	50,597	295,825	245,030
Total operating expenses	502,105	547,019	1,553,340	1,645,319
Operating income	126,335	121,732	236,720	227,394
Other income and (expenses):				
Net interest deductions	(17,959)	(18,175)	(75,461)	(74,855)
Net interest deductions on subordinated debentures	-	(1,912)	-	(7,710)
Other income (deductions)	(278)	(523)	4,095	7,826
Total other income and (expenses)	(18,237)	(20,610)	(71,366)	(74,739)
Income before income taxes	108,098	101,122	165,354	152,655
Income tax expense	39,744	36,662	58,007	51,058
Net income	68,354	64,460	107,347	101,597
Net income (loss) attributable to noncontrolling interest	(195)	(188)	(431)	(552)
Net income attributable to Southwest Gas Corporation	$ 68,549	$ 64,648	$ 107,778	$ 102,149
Basic earnings per share	$ 1.50	$ 1.43	$ 2.37	$ 2.27
Diluted earnings per share	$ 1.48	$ 1.42	$ 2.34	$ 2.26
Dividends declared per share	$ 0.2650	$ 0.2500	$ 1.0150	$ 0.9625
Average number of common shares outstanding	45,763	45,221	45,538	44,948
Average shares outstanding (assuming dilution)	46,178	45,595	45,966	45,287

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31,		TWELVE MONTHS ENDED MARCH 31,	
	2011	2010	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	$ 68,354	$ 64,460	$ 107,347	$ 101,597
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	48,862	47,696	191,629	189,256
Deferred income taxes	13,949	1,198	62,862	34,519
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	(21,432)	(18,485)	7,170	(2,639)
Accrued utility revenue	22,900	28,000	2,200	800
Deferred purchased gas costs	(32,152)	3,369	(2,508)	73,629
Accounts payable	(51,078)	(38,528)	(5,870)	4,210
Accrued taxes	52,754	57,882	(20,368)	40,167
Other current assets and liabilities	29,281	25,540	16,636	(2,100)
Gains on sale	(885)	(232)	(2,200)	(2,458)
Changes in undistributed stock compensation	2,843	2,687	4,585	4,414
AFUDC and property-related changes	(124)	(278)	(791)	(1,029)
Changes in other assets and deferred charges	(6,633)	(3,567)	(15,328)	(18,570)
Changes in other liabilities and deferred credits	4,152	(7,122)	(6,200)	(1,911)
Net cash provided by operating activities	130,791	162,620	339,164	419,885
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(51,817)	(34,152)	(233,104)	(198,692)
Change in restricted cash	-	(7)	11,995	(49,776)
Changes in customer advances	(880)	(1,264)	(446)	(1,972)
Miscellaneous inflows	1,371	957	4,489	6,467
Miscellaneous outflows	(2,500)	-	(5,300)	(2,448)
Net cash used in investing activities	(53,826)	(34,466)	(222,366)	(246,421)
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	4,003	4,006	11,095	14,255
Dividends paid	(11,446)	(10,742)	(45,550)	(42,694)
Interest rate swap settlement	-	-	(11,691)	-
Issuance of long-term debt, net	125,000	-	248,960	49,834
Retirement of long-term debt	(202,243)	(328)	(205,242)	(10,636)
Redemption of subordinated debentures	-	(100,000)	-	(100,000)
Change in long-term portion of credit facility	-	(47,400)	(45,000)	(69,000)
Net cash used in financing activities	(84,686)	(154,464)	(47,428)	(158,241)
Change in cash and cash equivalents	(7,721)	(26,310)	69,370	15,223
Cash and cash equivalents at beginning of period	116,096	65,315	39,005	23,782
Cash and cash equivalents at end of period	$ 108,375	$ 39,005	$ 108,375	$ 39,005
Supplemental information:				
Interest paid, net of amounts capitalized	$ 17,715	$ 20,676	$ 84,039	$ 80,122
Income taxes paid (received)	(16,859)	(3,655)	5,996	(25,364)

The accompanying notes are an integral part of these statements.

Note 1 – Nature of Operations and Basis of Presentation

Nature of Operations. Southwest Gas Corporation and its subsidiaries (the "Company") are composed of two segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services. Southwest is engaged in the business of purchasing, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. The public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year. Variability in weather from normal temperatures, primarily in Arizona, can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. NPL Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such rules and regulations. The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2010 Annual Report to Shareholders, which is incorporated by reference into the 2010 Form 10-K.

Intercompany Transactions. NPL recognizes revenues generated from contracts with Southwest (see **Note 3** below). Accounts receivable for these services are presented in the table below (thousands of dollars):

	March 31, 2011	December 31, 2010
Accounts receivable for NPL services	$ 6,956	$ 8,111

The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with accounting treatment for rate-regulated entities.

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):

	Three Months Ended March 31		Twelve Months Ended March 31	
	2011	2010	2011	2010
Change in COLI policies	$ 2,200	$ 1,490	$ 10,480	$ 11,630
Interest income	92	21	265	148
Pipe replacement costs	(886)	(1,570)	(4,339)	(3,881)
Miscellaneous income and (expense)	(1,684)	(464)	(2,311)	(71)
Total other income (deductions)	$ (278)	$ (523)	$ 4,095	$ 7,826

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

Reclassifications. A reclassification between two miscellaneous operating cash flow categories was made to the prior year's financial information to present it on a basis comparable with the current year's presentation with no impact on net cash provided by operating activities.

Note 2 – Components of Net Periodic Benefit Cost

Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees and a separate unfunded supplemental retirement plan ("SERP") which is limited to officers. Southwest also provides postretirement benefits other than pensions ("PBOP") to its qualified retirees for health care, dental, and life insurance benefits.

	Qualified Retirement Plan			
	Period Ended March 31,			
	Three Months		Twelve Months	
	2011	2010	2011	2010
(Thousands of dollars)				
Service cost	$ 4,431	$ 4,233	$ 17,130	$ 15,775
Interest cost	9,319	8,904	36,029	34,800
Expected return on plan assets	(10,029)	(9,135)	(37,432)	(35,551)
Amortization of prior service costs (credits)	-	-	-	(1)
Amortization of net loss	3,587	2,620	11,445	5,810
Net periodic benefit cost	$ 7,308	$ 6,622	$ 27,172	$ 20,833

	SERP			
	Period Ended March 31,			
	Three Months		Twelve Months	
	2011	2010	2011	2010
(Thousands of dollars)				
Service cost	$ 55	$ 93	$ 334	$ 239
Interest cost	441	511	1,975	2,060
Amortization of net loss	157	289	1,023	971
Net periodic benefit cost	$ 653	$ 893	$ 3,332	$ 3,270

	PBOP			
	Period Ended March 31,			
	Three Months		Twelve Months	
	2011	2010	2011	2010
(Thousands of dollars)				
Service cost	$ 215	$ 214	$ 857	$ 761
Interest cost	658	623	2,527	2,400
Expected return on plan assets	(595)	(523)	(2,165)	(1,725)
Amortization of transition obligation	216	217	866	867
Amortization of net loss	147	122	513	448
Net periodic benefit cost	$ 641	$ 653	$ 2,598	$ 2,751

Note 3 – Segment Information

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

	Natural Gas Operations	Construction Services	Total
Three months ended March 31, 2011			
Revenues from external customers	$ 553,853	$ 61,777	$ 615,630
Intersegment revenues	-	12,810	12,810
Total	$ 553,853	$ 74,587	$ 628,440
Segment net income	$ 68,015	$ 534	$ 68,549
Three months ended March 31, 2010			
Revenues from external customers	$ 614,509	$ 42,157	$ 656,666
Intersegment revenues	-	12,085	12,085
Total	$ 614,509	$ 54,242	$ 668,751
Segment net income (loss)	$ 65,317	$ (669)	$ 64,648
Twelve months ended March 31, 2011			
Revenues from external customers	$1,451,251	$ 276,833	$1,728,084
Intersegment revenues	-	61,976	61,976
Total	$1,451,251	$ 338,809	$1,790,060
Segment net income	$ 94,080	$ 13,698	$ 107,778
Twelve months ended March 31, 2010			
Revenues from external customers	$1,594,246	$ 226,969	$1,821,215
Intersegment revenues	-	51,498	51,498
Total	$1,594,246	$ 278,467	$1,872,713
Segment net income	$ 94,885	$ 7,264	$ 102,149

Note 4 – Derivatives and Fair Value Measurements

Derivatives. In managing its natural gas supply portfolios, Southwest has historically entered into fixed- and variable-price contracts, which qualify as derivatives. Additionally, Southwest utilizes 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 have no significant market value. The Swaps are recorded at fair value.

The fixed-price contracts and Swaps are utilized by Southwest under its volatility mitigation programs to effectively fix the price on a portion (ranging from 25% to 50%, depending on the jurisdiction) of its natural gas supply portfolios. The maturities of the Swaps highly correlate to forecasted purchases of natural gas, during time frames ranging from April 2011 through October 2012. Under such contracts, Southwest pays the counterparty at a fixed rate and receives from the counterparty a floating rate per MMBtu ("dekatherm") of natural gas. Only the net differential is actually 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):

	March 31, 2011	December 31, 2010
Swaps contracts	16,657	14,207

Southwest does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

Gains (losses) recognized in income for derivatives not designated as hedging instruments:
(Thousands of dollars)

Instrument	Location of Gain or (Loss) Recognized in Income on Derivative	Three Months Ended March 31 2011	Three Months Ended March 31 2010	Twelve Months Ended March 31 2011	Twelve Months Ended March 31 2010
Swaps	Net cost of gas sold	$ 289	$(16,342)	$(11,059)	$(11,765)
Swaps	Net cost of gas sold	(289) *	16,342 *	11,059 *	11,765 *
Total		$ -	$ -	$ -	$ -

* Represents the impact of regulatory deferral accounting treatment under U.S. GAAP for rate-regulated entities.

In January 2010, Southwest entered into two forward starting interest rate swaps ("FSIRS") to hedge the risk of interest rate variability during the period leading up to the planned issuance of fixed-rate debt to replace $200 million of debt that matured in February 2011 and $200 million maturing in May 2012. The counterparties to each agreement are four major banking institutions. The first FSIRS was a designated cash flow hedge and terminated in December 2010 concurrent with the related issuance of $125 million 4.45% 10-year Senior Notes. The terms of the second FSIRS are as follows:

Notional amount	$100 million
Fixed rate to be paid by Southwest	4.78%
Mandatory termination date (on or before)	March 20, 2012

Southwest previously designated the second FSIRS agreement as a cash flow hedge of forecasted future interest payments. At the inception of the hedge, the terms of the derivative were the same as a perfect hypothetical derivative; thus, there is an expectation that there will be no ineffectiveness, and that the effective portion of unrealized gains and losses on the FSIRS leading up to the forecasted debt issuance will be reported as a component of other comprehensive income. At termination, the final value will be reclassified from accumulated other comprehensive income into earnings over the term of the debt issuance, which is the same period the hedged forecasted transaction affects earnings. However, should conditions occur that indicate the existence of ineffectiveness (e.g., deterioration of counterparty creditworthiness, delay in the forecasted debt issuance, etc.), Southwest will measure ineffectiveness by comparing the change in fair value of the FSIRS with the change in fair value of a hypothetical swap (the hypothetical derivative method). Gains and losses due to ineffectiveness will be recognized immediately in earnings. At March 31, 2011, the remaining FSIRS continued to qualify as an effective hedge. There was no gain or (loss) reclassified from accumulated other comprehensive income ("AOCI") into income (effective portion) and no gain or (loss) recognized in income (ineffective portion) for the Company's remaining derivative designated as a hedging instrument. See **Note 6 – Equity, Comprehensive Income, and Accumulated Other Comprehensive Income** for additional information on both FSIRS contracts.

Gains (losses) recognized in other comprehensive income for derivatives designated as cash flow hedging instruments:
(Thousands of dollars)

	Three Months Ended		Twelve Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Amount of gain (loss) on unrealized FSIRS recognized in other comprehensive income on derivative (effective portion)	$ 671	$ (987)	$ (5,097)	$ (987)
Amount of loss on realized FSIRS recognized in other comprehensive income on derivative	-	-	(11,691)	-
	$ 671	$ (987)	$ (16,788)	$ (987)

The following table sets forth the fair values of the Company's Swaps and FSIRS and their location in the balance sheets (thousands of dollars):

Fair values of derivatives not designated as hedging instruments:

March 31, 2011 Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
Swaps	Deferred charges and other assets	$ 733	$ (4)	$ 729
Swaps	Other current liabilities	902	(8,189)	(7,287)
Total		$ 1,635	$ (8,193)	$ (6,558)

December 31, 2010 Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
Swaps	Deferred charges and other assets	$ 656	$ -	$ 656
Swaps	Other current liabilities	65	(11,547)	(11,482)
Total		$ 721	$ (11,547)	$(10,826)

Fair values of derivatives designated as hedging instruments:

March 31, 2011 Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
FSIRS	Other current liabilities	$ -	$ (6,084)	$ (6,084)

December 31, 2010 Instrument	Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
FSIRS	Other deferred credits	$ -	$ (6,755)	$ (6,755)

The estimated fair values of the natural gas derivatives were determined using future natural gas index prices (as more fully described below). The Company has master netting arrangements with each counterparty that provide for the net settlement of all contracts through a single payment. As applicable, the Company has elected to reflect the net amounts in its balance sheets.

Pursuant to regulatory deferral accounting treatment for rate-regulated entities, Southwest records the unrealized gains and losses in fair value of the Swaps as a regulatory asset and/or liability. When the Swaps settle, Southwest reverses any prior positions held and records the settled position as an increase or decrease in purchased gas under the related purchased gas adjustment ("PGA") mechanism in determining its deferred PGA balances. Neither changes in the fair value of the Swaps nor settled amounts have a direct effect on earnings or other comprehensive income.

The following table shows the amounts Southwest paid to and received from counterparties for settlements of matured Swaps.

(Thousands of dollars)	Three Months Ended March 31, 2011	Twelve Months Ended March 31, 2011
Paid to counterparties	$ 3,979	$ 17,833

No amounts were received from counterparties for settlements of matured Swaps for the three months and twelve months ended March 31, 2011.

The following table details the regulatory assets/(liabilities) offsetting the amounts in the balance sheets (thousands of dollars).

March 31, 2011

Instrument	Balance Sheet Location	Net Total
Swaps	Other deferred credits	$ (729)
Swaps	Prepaids and other current assets	7,287

December 31, 2010

Instrument	Balance Sheet Location	Net Total
Swaps	Other deferred credits	$ (656)
Swaps	Prepaids and other current assets	11,482

Fair Value Measurements. The estimated fair values of Southwest's Swaps were determined at March 31, 2011 and December 31, 2010 using NYMEX futures settlement prices for delivery of natural gas at Henry Hub adjusted by the price of NYMEX ClearPort basis Swaps, 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, but have been credit-risk adjusted with no significant impact to the overall fair value measure.

The estimated fair values of Southwest's FSIRS were determined using a discounted cash flow model that utilizes forward interest rate curves. The inputs to the model are the terms of the FSIRS. These Level 2 inputs are observable in the marketplace throughout the full term of the FSIRS, but have been credit-risk adjusted with no significant impact to the overall fair value measure.

The following table sets forth, by level within the three-level fair value hierarchy that ranks the inputs used to measure fair value by their reliability, the Company's financial assets and liabilities that were accounted for at fair value:

Level 2 - Significant other observable inputs

(Thousands of dollars)	March 31, 2011	December 31, 2010
Assets at fair value:		
Deferred charges and other assets - Swaps	$ 729	$ 656
Liabilities at fair value:		
Other current liabilities - Swaps	(7,287)	(11,482)
Other current liabilities - FSIRS	(6,084)	-
Other deferred credits - FSIRS	-	(6,755)
Net Assets (Liabilities)	$ (12,642)	$ (17,581)

No financial assets or liabilities accounted for at fair value fell within Level 1 or Level 3 of the fair value hierarchy.

Related Tax Effects of Designated Hedging Activities Allocated to Each Component of Other Comprehensive Income

	Three Months Ended March 31,					
	2011			2010		
(Thousands of dollars)	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount
FSIRS:						
Realized/unrealized gain (loss)	$ 671	$ (255)	$ 416	$(987)	$ 375	$(612)
Amounts reclassified into net income	292	(111)	181	-	-	-
Other comprehensive (income) loss	$ 963	$ (366)	$ 597	$(987)	$ 375	$(612)

	Twelve Months Ended March 31,					
	2011			2010		
(Thousands of dollars)	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of-Tax Amount
FSIRS:						
Realized/unrealized gain (loss)	$(16,788)	$ 6,380	$(10,408)	$(987)	$ 375	$(612)
Amounts reclassified into net income	389	(148)	241	-	-	-
Other comprehensive (income) loss	$(16,399)	$ 6,232	$(10,167)	$(987)	$ 375	$(612)

(1) Tax amounts are calculated using a 38% rate.

Note 5 – Long-Term Debt

Carrying amounts of the Company's long-term debt and their related estimated fair values as of March 31, 2011 and December 31, 2010 are disclosed in the following table. The fair values of the revolving credit facility and the variable-rate Industrial Development Revenue Bonds ("IDRBs") approximate carrying value. Market values for the debentures, fixed-rate IDRBs, and other indebtedness were determined based on dealer quotes using trading records for March 31, 2011 and December 31, 2010, as applicable, and other secondary sources which are customarily consulted for data of this kind.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Market Value	Carrying Amount	Market Value
(Thousands of dollars)				
Debentures:				
Notes, 8.375%, due 2011	$ -	$ -	$ 200,000	$201,560
Notes, 7.625%, due 2012	200,000	212,374	200,000	214,666
Notes, 4.45%, due 2020	125,000	113,301	125,000	125,325
Notes, 6.1%, due 2041	125,000	117,327	-	-
8% Series, due 2026	75,000	88,918	75,000	99,968
Medium-term notes, 7.59% series, due 2017	25,000	28,775	25,000	30,295
Medium-term notes, 7.78% series, due 2022	25,000	29,010	25,000	32,063
Medium-term notes, 7.92% series, due 2027	25,000	29,568	25,000	33,211
Medium-term notes, 6.76% series, due 2027	7,500	7,977	7,500	8,956
Unamortized discount	(2,394)		(2,534)	
	605,106		679,966	
Revolving credit facility and commercial paper, due 2012	-	-	-	-
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
Fixed-rate bonds:				
6.10% 1999 Series A, due 2038	12,410	11,757	12,410	11,968
5.95% 1999 Series C, due 2038	14,320	13,327	14,320	13,594
5.55% 1999 Series D, due 2038	8,270	7,301	8,270	7,468
5.45% 2003 Series C, due 2038 (rate resets in 2013)	30,000	31,729	30,000	31,547
5.25% 2003 Series D, due 2038	20,000	17,075	20,000	17,474
5.80% 2003 Series E, due 2038 (rate resets in 2013)	15,000	15,258	15,000	15,436
5.25% 2004 Series A, due 2034	65,000	57,247	65,000	58,574
5.00% 2004 Series B, due 2033	31,200	26,669	31,200	27,295
4.85% 2005 Series A, due 2035	100,000	82,417	100,000	84,485
4.75% 2006 Series A, due 2036	24,855	20,007	24,855	20,518
Unamortized discount	(3,467)		(3,502)	
	517,588		517,553	
Other	-	-	2,242	2,473
	1,122,694		1,199,761	
Less: current maturities	-		(75,080)	
Long-term debt, less current maturities	$1,122,694		$1,124,681	

Note 6 – Equity, Comprehensive Income, and Accumulated Other Comprehensive Income

The table below provides details of activity in equity during the three months ended March 31, 2011.

	Southwest Gas Corporation Equity						
(In thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interest	Total
DECEMBER 31, 2010	45,599	$ 47,229	$807,885	$ (30,784)	$343,131	$ (465)	$1,166,996
Common stock issuances	245	245	6,747				6,992
Net income (loss)					68,549	(195)	68,354
Other comprehensive income (loss):							
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax				320			320
FSIRS unrealized gains, net of tax				416			416
Amounts reclassified to net income, net of tax (Note 4)				181			181
Dividends declared							
Common: $0.265 per share					(12,341)		(12,341)
MARCH 31, 2011	45,844	$ 47,474	$814,632	$ (29,867)	$399,339	$ (660)	$1,230,918

The tables below provide details of comprehensive income and year-to-date activity in AOCI. See **Note 4 – Derivatives and Fair Value Measurements** for additional information on the FSIRS, including reclassifications into net income.

Comprehensive Income

(Thousands of dollars)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Twelve Months Ended March 31, 2011	Twelve Months Ended March 31, 2010
Net income	$ 68,354	$ 64,460	$ 107,347	$ 101,597
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax	320	341	2,821	(2,690)
FSIRS realized and unrealized gains (losses), net of tax	416	(612)	(10,408)	(612)
Amounts reclassifed into net income, net of tax	181	-	241	-
Comprehensive income	69,271	64,189	100,001	98,295
Comprehensive loss attributable to noncontrolling interest	(195)	(188)	(431)	(552)
Comprehensive income attributable to Southwest Gas Corporation	$ 69,466	$ 64,377	$ 100,432	$ 98,847
Tax (expense) benefit associated with net actuarial gain (loss) arising during period	$ (196)	$ (210)	$ (1,727)	$ 1,648
Tax (expense) benefit associated with FSIRS realized and unrealized gain (loss) recognized in other comprehensive income	$ (255)	$ 375	$ 6,380	$ 375
Tax (expense) benefit associated with FSIRS reclassified out of AOCI to net income	$ (111)	$ -	$ (148)	$ -

AOCI - Rollforward

(Thousands of dollars)

	Defined Benefit Plans			FSIRS			
	Before-Tax	**Tax (Expense) Benefit**	**After-Tax**	**Before-Tax**	**Tax (Expense) Benefit**	**After-Tax**	**AOCI**
Beginning Balance AOCI December 31, 2010	$(31,304)	$ 11,896	$(19,408)	$(18,349)	$ 6,973	$ (11,376)	$(30,784)
Current period change	516	(196)	320 *	963	(366)	597 **	917
Ending Balance AOCI March 31, 2011	$(30,788)	$ 11,700	$(19,088)	$(17,386)	$ 6,607	$ (10,779)	$(29,867)

* Net actuarial gain (loss), less amortization of unamortized benefit plan cost

** FSIRS unrealized gain of $416,000 recognized in other comprehensive income plus the portion of the previous FSIRS realized loss that was reclassified to net income in the current period ($181,000).

Approximately $741,000 of realized/unrealized losses (net of tax) related to the FSIRS reported in AOCI at March 31, 2011 will be reclassified into expense within the next 12 months as the related interest payments on long- term debt occur.

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

Southwest Gas Corporation and its subsidiaries (the "Company") consist 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, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor 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.

On a seasonally adjusted basis as of March 31, 2011, Southwest had 1,844,000 residential, commercial, industrial, and other natural gas customers, of which 996,000 customers were located in Arizona, 665,000 in Nevada, and 183,000 in California. Residential and commercial customers represented over 99% of the total customer base. During the twelve months ended March 31, 2011, 54% of operating margin was earned in Arizona, 35% in Nevada, and 11% in California. During this same period, Southwest earned 86% of its operating margin from residential and small commercial customers, 4% from other sales customers, and 10% 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 the measure of gas operating revenues less the net cost of gas sold. Management uses operating margin as a main benchmark in comparing operating results from period to period. The principal factors affecting operating margin are general rate relief, weather, conservation and efficiencies, and customer growth. Of these, weather is the primary reason for volatility in margin. Variances in temperatures from normal levels, primarily in Arizona, can have a significant impact on the margin and associated net income of the Company. A decoupled rate structure designed to mitigate the impact of weather variability as well as conservation on margin is utilized in the Nevada service territories. Weather impacts and conservation are also offset by the margin tracking mechanism in Southwest's California service territories.

NPL 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. NPL operates in 18 major markets nationwide. Construction activity is cyclical and can be significantly impacted by changes in general and local economic conditions, including the housing market, interest rates, employment levels, job growth, the equipment resale market, pipe replacement programs of utilities, and local and federal tax rates. Generally, revenues and profits are lowest during the first quarter of the year due to less favorable winter weather conditions. Operating results typically improve as more favorable weather conditions occur during the summer and fall months.

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the MD&A, included in the 2010 Annual Report to Shareholders, which is incorporated by reference into the 2010 Form 10-K.

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations. As needed, certain items 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 90% of twelve-month-to-date consolidated net income over the past two years. As such, management's discussion and analysis is primarily focused on that segment. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Summary Operating Results

	Period Ended March 31,			
	Three Months		Twelve Months	
	2011	2010	2011	2010
	(In thousands, except per share amounts)			
Contribution to net income				
Natural gas operations	$ 68,015	$ 65,317	$ 94,080	$ 94,885
Construction services	534	(669)	13,698	7,264
Net income	$ 68,549	$ 64,648	$107,778	$102,149
Average number of common shares outstanding	45,763	45,221	45,538	44,948
Basic earnings per share				
Consolidated	$ 1.50	$ 1.43	$ 2.37	$ 2.27
Natural Gas Operations				
Operating margin	$270,047	$262,254	$783,525	$771,171

Consolidated results for the first quarter of 2011 improved compared to the same period in 2010. The improvement primarily resulted from increased gas segment operating margin and lower financing costs, partially offset by increased operating costs.

1st Quarter 2011 Overview

Natural gas operations highlights include the following:

- Operating margin increased approximately $8 million compared to the prior-year quarter primarily due to weather ($6 million), rate relief in California ($1 million), and customer growth ($1 million)
- Net financing costs declined $2.1 million between quarters
- Quarterly dividend increased from 25 cents to 26.5 cents per share, effective with the June 2011 payment
- Standard & Poor's upgraded the Company's credit rating from BBB to BBB+ in April 2011
- Liquidity position remains strong

Construction Services highlights include the following:

- Revenues increased 38% compared to the prior-year quarter
- Contribution to consolidated net income improved $1.2 million between quarters

Weather. The rate structures in each of Southwest's three states provide varying levels of protection from risks that drive operating margin volatility, particularly weather risk and conservation efforts. Southwest's exposure to these risks on operating margin is largely limited to its Arizona operating areas as both Nevada and California operations are now under decoupled rate structures. During the first quarters of both 2010 and 2011, overall Arizona weather was relatively normal; however, some unusually cold weather in early February 2011 provided an incremental $6 million of operating margin compared to the first quarter of 2010.

Arizona Rate Proceedings. In December 2010, the Arizona Corporation Commission ("ACC") issued a Policy Statement which allows utilities to file proposals for alternative mechanisms, including revenue-per-customer decoupling, in their next general rate case to address the financial disincentives to utilities of promoting energy efficiency. In anticipation of the Policy Statement, the Company's recent Arizona rate case filing requested a rate structure to decouple recovery of the Company's fixed costs from fluctuations in usage, both higher and lower, to enable the Company to aggressively advocate increased energy efficiency by its customers by eliminating the existing financial disincentive. The Arizona rate case is progressing consistent with the procedural schedule established by the Administrative Law Judge ("ALJ"). For more information see the **Rates and Regulatory Proceedings** discussion.

Customer Growth. Southwest completed 15,000 first-time meter sets over the last twelve months. These meter sets led to 14,000 net additional active customers. Southwest continues to project net customer growth of 1% or less for 2011.

Credit Rating Upgrade. In April 2011, Standard & Poor's Ratings Services ("S&P") upgraded the Company's unsecured long-term debt ratings from BBB (with a positive outlook) to BBB+ (with a stable outlook). S&P cited the Company's improved financial results and stable financial metrics. S&P debt ratings range from AAA (highest rating possible) to D (obligation is in default). The S&P rating of BBB+ indicates the issuer of the debt is regarded as having an adequate capacity to pay interest and repay principal.

Liquidity. Southwest believes its liquidity position remains strong. Southwest has a $300 million credit facility maturing in May 2012, $150 million of which is designated for working capital needs. The facility is provided through a consortium of eight major banking institutions. The facility was not used during the first quarter of 2011 and there was no balance outstanding at March 31, 2011, leaving the entire $300 million available for long-term and working capital needs. The lack of usage was primarily due to existing cash reserves and natural gas prices that were relatively stable. The current slowdown in housing construction has also allowed Southwest to fund construction expenditures primarily with internally generated cash.

Refinancing. In February 2011, the Company repaid the matured 8.375% $200 million Notes using the entire proceeds ($125 million) of the 6.1% Senior Notes (issued in February 2011) and $75 million of the total $125 million proceeds of 4.45% Senior Notes (issued in December 2010). The Company will reflect future interest expense savings due to lower interest rates obtained on the new notes.

Results of Natural Gas Operations

Quarterly Analysis

	Three Months Ended March 31,	
	2011	2010
	(Thousands of dollars)	
Gas operating revenues	$ 553,853	$ 614,509
Net cost of gas sold	283,806	352,255
Operating margin	270,047	262,254
Operations and maintenance expense	90,950	86,705
Depreciation and amortization	43,881	42,696
Taxes other than income taxes	9,869	9,766
Operating income	125,347	123,087
Other income (deductions)	(236)	(531)
Net interest deductions	17,828	18,024
Net interest deductions on subordinated debentures	-	1,912
Income before income taxes	107,283	102,620
Income tax expense (benefit)	39,268	37,303
Contribution to consolidated net income	$ 68,015	$ 65,317

Contribution to consolidated net income from natural gas operations improved by $2.7 million in the first quarter of 2011 compared to the same period a year ago. The improvement was primarily due to an increase in operating margin and a decrease in financing costs, partially offset by higher operating expenses.

Operating margin increased $8 million in the first quarter of 2011 compared to the first quarter of 2010. Differences in heating demand, caused primarily by weather variations, provided $6 million of the operating margin increase. While overall temperatures in both quarters were relatively normal, some unusually cold weather occurred in Arizona in early February 2011, resulting in the incremental operating margin. Rate relief in California provided $1 million of the operating margin increase. New customers contributed an incremental $1 million in operating margin as 14,000 net new customers were added during the last twelve months.

Operations and maintenance expense increased $4.2 million, or 5%, between quarters primarily due to increases in employee-related costs and approximately $1 million of costs associated with restoring service to 19,000 Arizona customers in early February 2011, following an outage due to extreme weather conditions.

Depreciation expense increased $1.2 million, or 3%, as a result of additional plant in service. Average gas plant in service for the current period increased $150 million, or 3%, compared to the corresponding period a year ago.

Net financing costs decreased $2.1 million between periods primarily due to the redemption of $100 million of Subordinated Debentures in March 2010.

Twelve-Month Analysis

	Twelve Months Ended March 31,	
	2011	2010
	(Thousands of dollars)	
Gas operating revenues	$ 1,451,251	$ 1,594,246
Net cost of gas sold	667,726	823,075
Operating margin	783,525	771,171
Operations and maintenance expense	359,188	350,985
Depreciation and amortization	171,641	167,207
Taxes other than income taxes	38,972	36,973
Operating income	213,724	216,006
Other income (deductions)	4,311	7,845
Net interest deductions	74,917	73,933
Net interest deductions on subordinated debentures	-	7,710
Income before income taxes	143,118	142,208
Income tax expense	49,038	47,323
Contribution to consolidated net income	$ 94,080	$ 94,885

Contribution to consolidated net income from natural gas operations decreased by $805,000 in the current twelve-month period as compared to the corresponding period a year ago. The decrease in contribution was a result of higher operating expenses and a decline in other income, partially offset by increased operating margin and reduced financing costs.

Operating margin increased $12 million between periods. Rate relief provided $9 million of the operating margin increase, consisting of $6 million in Nevada and $3 million in California. Differences in heating demand caused primarily by weather variations between periods accounted for $1 million in incremental operating margin. Customer growth contributed $2 million in operating margin.

Operations and maintenance expense increased $8.2 million, or 2%, primarily due to higher general costs and employee-related benefit costs including pension expense. The increases were mitigated by cost containment efforts (including lower staffing levels) and a decrease in uncollectible expense, partially due to the impact of a tracking mechanism in Nevada for the gas-cost portion of uncollectible accounts.

Depreciation expense increased $4.4 million, or 3%, as a result of additional plant in service. The increase was mitigated by lower depreciation rates in the Nevada rate jurisdictions, effective June 2009. Average gas plant in service for the current period increased $138 million, or 3%, compared to the corresponding period a year ago. This was attributable to reinforcement work, franchise requirements, routine pipe replacement activities and new business.

Other income, which principally includes returns on COLI policies and non-utility expenses, declined $3.5 million between the twelve-month periods of 2011 and 2010. The current period includes $10.5 million of COLI cash surrender value increases compared to $11.6 million of cash surrender value increases in the prior-year period. COLI income in both periods was very high due to strong equity market returns on investments underlying the policies.

Net financing costs decreased $6.7 million between the twelve-month periods of 2011 and 2010 primarily due to the redemption of the Subordinated Debentures in March 2010.

Results of Construction Services

Quarter. Contribution to consolidated net income from construction services for the three months ended March 31, 2011 increased $1.2 million compared to the same period of 2010.

Revenues increased $20.3 million, a 38% improvement, when compared to the same period of 2010. Revenue from replacement construction continues to be strong. During the quarter, revenue from bid projects increased and offset revenue from new construction that remained at low levels. Construction expenses increased $18 million. Gains on sale of equipment were $885,000 and $232,000 for the first quarters of 2011 and 2010, respectively.

Twelve Months-to-Date. The contribution to consolidated net income from construction services for the twelve-month period ended March 31, 2011 increased $6.4 million compared to the same period of 2010.

Revenues increased $60.3 million due primarily to an increase in the volume of replacement work. Construction expenses increased $50.8 million between the twelve-month periods due primarily to the increase in replacement construction work, while depreciation expense declined $2.1 million due to the timing of equipment purchases. Gains on sale of equipment were $2.2 million and $2.5 million for the twelve-month periods of 2011 and 2010, respectively.

NPL's revenues and operating profits are influenced by weather, customer requirements, mix of work, local economic conditions, bidding results, the equipment resale market, and the credit market. Typically, revenues and profit are lowest during the first quarter of the year due to unfavorable winter weather conditions. Operating results typically improve as more favorable weather conditions occur during the summer and fall months.

Rates and Regulatory Proceedings

Arizona Energy Efficiency and Decoupling Proceeding. In August 2010, the ACC issued a Notice of Proposed Rulemaking on Gas Energy Efficiency, which adopted an energy efficiency requirement for Arizona's gas utilities, including Southwest, to achieve cumulative annual energy savings of 6% by December 2020. In October 2010, the Chairman of the ACC issued a draft Policy Statement, which would allow utilities to file proposals for alternative mechanisms including revenue-per-customer decoupling, in connection with a general rate case to address the financial disincentives to utilities of promoting energy efficiency. The Policy Statement was approved by the ACC in December 2010.

Arizona General Rate Case. Southwest filed a general rate application with the ACC in November 2010 requesting an increase in authorized annual operating revenues of $73.2 million, or 9.26%, to reflect increased operating costs, investments in infrastructure, and costs of capital, as well as margin attrition due to decreased average usage by customers. The application requests an overall rate of return of 9.73% on original cost rate base of $1.074 billion, an 11% return on common equity, and a capital structure utilizing 52% common equity.

The rate case filing also requested a rate structure to decouple recovery of the Company's fixed costs from fluctuations in usage, both higher and lower, and enable the Company to aggressively advocate for increased energy efficiency by its customers. The filed structure anticipated the approval of the Policy Statement discussed in the *Arizona Energy Efficiency and Decoupling Proceeding* section above. The proposed mechanism, referred to as the Energy Efficiency Enabling Provision ("EEEP"), is a revenue-per-customer decoupling mechanism designed to eliminate the link between volumetric sales and revenues that currently exists with traditional rate designs, such that the existing financial disincentive associated with the Company's pursuit of cost effective energy efficiency is eliminated. This will allow management to focus on customers and to concentrate its attention on the cost of providing service. The pursuit of increased energy efficiency by customers is supported by the requested approval of a detailed energy efficiency and renewable energy resource plan. The rate case is progressing consistent with the procedural schedule established by the ALJ. Intervenor testimony is due in June and a decision by the ACC is expected in late 2011 or early 2012.

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- and under-collections. At March 31, 2011, over-collections in all service territories resulted in a liability of $90.8 million on the Company's balance sheet. Filings to change rates in accordance with PGA clauses are subject to audit by state regulatory commission staffs. PGA changes impact cash flows but have no direct impact on profit margin. However, gas cost deferrals and recoveries can impact comparisons between periods of individual income statement components. These include Gas operating revenues, Net cost of gas sold, Net interest deductions, and Other income (deductions).

As of March 31, 2011, December 31, 2010, and March 31, 2010, Southwest had the following outstanding PGA balances receivable/(payable) (millions of dollars):

	March 31, 2011	December 31, 2010	March 31, 2010
Arizona	$ (29.7)	$ (45.2)	$ (30.9)
Northern Nevada	(11.5)	(8.4)	(5.5)
Southern Nevada	(49.5)	(69.8)	(53.1)
California	(0.1)	0.4	(3.8)
	$ (90.8)	$ (123.0)	$ (93.3)

Capital Resources and Liquidity

Cash on hand and cash flows from operations have generally been sufficient over the past two years to provide for net investing activities (primarily construction expenditures and property additions). During the past two years, the Company has been able to use cash inflows to reduce the net amount of debt outstanding. The Company's capitalization strategy is to maintain an appropriate balance of equity and debt.

To facilitate future financings, the Company has a universal shelf registration statement providing for the issuance and sale of registered securities from time to time, which may consist of secured debt, unsecured debt, preferred stock, or common stock. The number and dollar amount of securities issued under the universal shelf registration statement, which was filed with the SEC and automatically declared effective in December 2008, will be determined at the time of the offerings, if any, and presented in the applicable prospectuses.

Cash Flows

Operating Cash Flows. Cash flows provided by consolidated operating activities decreased $31.8 million in the first quarter of 2011 as compared to the same period in 2010. The primary drivers of the change were temporary fluctuations in working capital components partially offset by an increase in net income between periods.

Investing Cash Flows. Net cash used in consolidated investing activities increased $19.4 million in the first quarter of 2011 as compared to the same period in 2010. The increase was primarily due to additional construction expenditures, including routine and accelerated pipe replacement (to take advantage of bonus depreciation tax incentives), and equipment purchases by NPL due to increased replacement construction work of its customers.

Financing Cash Flows. Net cash used in consolidated financing activities decreased $69.8 million during the first quarter of 2011 as compared to the same period in 2010 primarily due to the issuance of new debt ($125 million 6.1% Senior Notes), partially offset by debt repayments including the $200 million 8.375% Notes repaid in February 2011. Dividends paid increased in the first quarter of 2011 as compared to 2010 as a result of a quarterly dividend increase and an increase in the number of shares outstanding.

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and construction services segments. Each business activity is generally responsible for securing its own financing sources. The capital requirements and resources of the construction services segment are not material to the overall capital requirements and resources of the Company.

Gas Segment Construction Expenditures, Debt Maturities, and Financing

During the twelve-month period ended March 31, 2011, construction expenditures for the natural gas operations segment were $191 million. The majority of these expenditures represented costs associated with routine and accelerated replacement of existing transmission, distribution, and general plant (see also *Bonus Depreciation* below). Cash flows from operating activities of Southwest were $307 million which provided sufficient funding for construction expenditures and dividend requirements of the natural gas operations segment.

Southwest estimates natural gas segment construction expenditures during the three-year period ending December 31, 2013 will be approximately $680 million (including $110 million of accelerated expenditures). During the three-year period, cash flows from operating activities of Southwest (including bonus depreciation benefits) are expected to provide approximately 80% of the gas operations total construction expenditures and dividend requirements. During the three-year period, the Company expects to raise approximately $15 million from its various common stock programs. Any cash requirements not met by operating activities are expected to be provided by cash on hand, existing credit facilities and/or other external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, growth levels in Southwest's service areas, and earnings. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

In December 2010, the Company issued $125 million in 4.45% Senior Notes, due December 2020 at a discount of 0.182%. A portion of the net proceeds was used to pay down borrowings under the credit facility. In February 2011, the Company used approximately $75 million of the remaining net proceeds in connection with its repayment of the 8.375% $200 million Notes that matured in February 2011. The remaining proceeds were used for general corporate purposes.

In February 2011, the Company issued $125 million of 6.1% Senior Notes to certain institutional investors pursuant to a November 2010 note purchase agreement. The Senior Notes are unsecured and unsubordinated obligations of the Company, due in February 2041. Funds from the issuance were used to partially repay the 8.375% $200 million Notes that matured in February 2011.

Southwest also has $200 million of long-term debt maturing in May 2012 and plans to fund that obligation by issuing $200 million of debentures by the maturity date. In connection with the planned 2012 debt issuance, the Company, in January 2010, entered into a forward-starting interest rate swap ("FSIRS") agreement to partially hedge the risk of interest rate variability during the period leading up to the planned issuance. See **Note 4 – Derivatives and Fair Value Measurements** for more information on the FSIRS.

During the quarter ended March 31, 2011, the Company issued shares of common stock through the Stock Incentive Plan, raising approximately $4 million.

Bonus Depreciation. As a result of two tax acts signed into law in 2010, bonus tax depreciation of 100% is available for qualified property acquired or constructed and placed in service from September 9, 2010 through December 31, 2011 and 50% bonus tax depreciation is available for qualified property acquired or constructed and placed in service from January 1, 2012 through December 31, 2012. Based on forecasted qualifying construction expenditures, Southwest estimates the bonus depreciation provisions of the two acts will defer the payment of approximately $55 million and $25 million of federal income taxes during 2011 and 2012, respectively.

Dividend Policy

The Company has a common stock dividend policy which states that common stock dividends will be paid at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles. In February 2011, the Board of Directors increased the quarterly dividend payout from 25 cents to 26.5 cents per share, effective with the June 2011 payment.

Liquidity

Liquidity refers to the ability of an enterprise to generate sufficient amounts of cash through its operating activities and external financing to meet its cash requirements. 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, Southwest's ability to access and obtain capital from external sources, interest rates, changes in income tax laws, pension funding requirements, inflation, and the level of Company earnings. Natural gas prices and related gas cost recovery rates have historically had the most significant impact on Company liquidity.

On an interim basis, Southwest generally defers over- or under-collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At March 31, 2011, the combined balance in the PGA accounts totaled an over-collection of $90.8 million. See **PGA Filings** for more information on recent regulatory filings.

The Company has a $300 million credit facility that expires in May 2012. Southwest has designated $150 million of the $300 million facility as long-term debt and the remaining $150 million for working capital purposes. At March 31, 2011, no borrowings were outstanding on either the long-term or short-term portion of the credit facility and the Company had $108 million of cash on hand. Neither the short-term nor long-term portion of the facility was used during the first quarter of 2011. The credit facility can be used as necessary to meet liquidity requirements, including temporarily financing under-collected PGA balances, if any, or meeting the refund needs of over-collected balances. This credit facility has been, and is expected to continue to be, adequate for Southwest's working capital needs outside of funds raised through operations and other types of external financing. Management believes the Company currently has a solid liquidity position.

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

	For the Twelve Months Ended	
	March 31, 2011	December 31, 2010
Ratio of earnings to fixed charges	3.00	2.87

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

Company-Owned Life Insurance ("COLI"). Southwest has life insurance policies on members of management and other key employees to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. The COLI policies have a combined net death benefit value of approximately $217 million at March 31, 2011. The net cash surrender value of these policies (which is the cash amount the Company would receive if it voluntarily terminated the policies) is approximately $74 million at March 31, 2011 and is included in the caption "Other property and investments" on the balance sheet.

Forward-Looking Statements

This quarterly 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 quarterly report are forward-looking statements, including, without limitation, statements regarding the Company's plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions. The words "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "continue," "forecast," 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, the

Company's COLI strategy, timing of improvements in the housing market, amount and timing for completion of estimated future construction expenditures, forecasted operating cash flows and results of operations, funding sources of cash requirements, sufficiency of working capital, bank lending practices, the Company's views regarding its liquidity position, ability to raise funds and receive external financing, the amount and form of any such financing, future financing cost savings, plans to fund maturing obligations, the effectiveness of the forward-starting interest rate swap agreement in hedging against changing interest rates, liquidity, certain benefits of tax acts, statements regarding future gas prices, gas purchase contracts and derivative financial interests, the impact of certain legal proceedings, and the timing and results of future rate hearings 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, the impact of weather variations on customer usage, customer growth rates, conditions in the housing market, the ability to recover costs through PGA mechanisms, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, changes in construction expenditures and financing, renewal of franchises, easements and rights-of-way, changes in operations and maintenance expenses, effects of pension expense forecasts, accounting changes, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, acquisitions and management's plans related thereto, competition, and the ability to raise capital in external financings. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing and operations and maintenance expenses will continue in future periods. For additional information on the risks associated with the Company's business, see **Item 1A. Risk Factors** and **Item 7A. Quantitative and Qualitative Disclosures About Market Risk** in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** in the Company's 2010 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the Company's disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures (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 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 our management, including our 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 March 31, 2011, management of the Company, including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the first quarter of 2011 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEMS 1A. through 3. None.

ITEM 4. REMOVED AND RESERVED

ITEM 5. None.

ITEM 6. EXHIBITS

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

Exhibit 10.01	Form of Change in Control Agreement with Company Officers
Exhibit 10.02	Form of General Release – Exhibit A to Form of Change in Control Agreement with Company Officers
Exhibit 12.01 -	Computation of Ratios of Earnings to Fixed Charges.
Exhibit 31.01 -	Section 302 Certifications.
Exhibit 32.01 -	Section 906 Certifications.
Exhibit 101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011, formatted in Extensible Business Reporting Language ("XBRL"): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Income, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Southwest Gas Corporation
(Registrant)

Date: May 9, 2011

/s/ Gregory J. Peterson
Gregory J. Peterson
Vice President/Controller and Chief Accounting Officer

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing APPLICATION OFSOUTHWEST GAS CORPORATION (U 905 G) FOR APPROVAL OF LOW-INCOME ASSISTANCE PROGRAMS AND BUDGETS FOR PROGRAM YEARS 2012-2014 upon the individuals on the established service list in proceeding A.08-06-031 and other individuals and or entities by electronic mail (email) service. Those individuals without an email address were served by regular, first-class mail.

Dated this 15th day of June, 2011 at Las Vegas, Nevada.

/s/ Valerie J. Ontiveroz

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Service List in Proceeding A.08-06-031
Last Updated: June 3, 2011

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