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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation for authority to: (i) issue one or more types of debt securities in the principal amount of up to $200,000,000; (ii) refinance previously issued short-term debt securities; (iii) refinance previously authorized securities under the "Evergreening Authority" guidelines; and (iv) enter into one or more interest rate risk management contracts. (U905G)	Application 10-04-008 (Filed April 2, 2010)

RESPONSE TO INQUIRIES OF THE ADMINISTRATIVE LAW JUDGE

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Filed: May 7, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southwest Gas Corporation for authority to: (i) issue one or more types of debt securities in the principal amount of up to $200,000,000; (ii) refinance previously issued short-term debt securities; (iii) refinance previously authorized securities under the "Evergreening Authority" guidelines; and (iv) enter into one or more interest rate risk management contracts. (U905G)	Application 10-04-008 (Filed April 2, 2010)

RESPONSE TO INQUIRIES OF THE
ADMINISTRATIVE LAW JUDGE

Pursuant to the April 29, 2010 *Administrative Law Judge's Ruling Requiring A Response To Request For Information Within 10 Days*, Southwest Gas Corporation ("Southwest") hereby respectfully submits the following responses to the questions posed in the Ruling.

1. What are the proposed terms of Southwest's proposed medium-term and long-term financing?

   Response: **As stated in Southwest's Annual Report, (pages 65-66) [excerpt attached hereto as Exhibit 1], $225 million of maturing debt is anticipated to be issued as 10-year fixed rate debt. In January 2010, Southwest entered into two forward–starting interest rate swaps to hedge the interest rate variability leading up to the issuance of this debt.**

   In addition, Southwest's $300 million revolving credit facility agreement expires in May 2012. Southwest anticipates that it will obtain a new revolving credit facility prior to expiration. The size, tenor and other terms of the new facility will depend on Southwest's financial position and bank lending market conditions.

   The terms for Southwest's remaining financings will be a function of Southwest's financial position and the capital market conditions at the time of issuance, with the objective of constructing an overall debt portfolio which minimizes the risks and costs to customers over the life of the utility assets financed.

2. Explain what Southwest means by the term “without limitation” on page 19 of the application, in regards to the types of indebtedness it proposes to issue.

   Response: **The Application includes the currently accepted or recognized methods for raising debt. The phrase “without limitation” is designed to include any new types of debt issuances that may become accepted in the financial markets after the authority is received. Southwest’s intention was to state that the types of indebtedness were “included, but are not limited to,” the types listed in the Application.**

3. Has Southwest employed any Diverse Business Enterprises (DBE) as underwriters in the issuance of its securities during the last five years?

   Response: **No.**

   a. If so, provide the year, the number of DBEs employed in that year, and the dollar value of Southwest securities offered by the DBEs in that year.

      Response: **N/A.**

   b. If not, explain why Southwest has not employed DBEs as underwriters.

      Response: **Southwest has developed relationships with a core group of banks, which provide Southwest with access to bank capital in the form of revolving lines of credit ($300 million) and standby letters of credit ($207.3 million). With the repeal of the Glass-Steagall Act in 1999, which originally separated commercial and investment banks, Southwest’s core group of banks now have investment banking capabilities, including underwriting securities offerings. Since that time, Southwest has utilized its core group of banks for underwriting securities offerings. As a result, Southwest has received underwriting pricing concessions in conjunction with recent bond issuances. Prior to the repeal of the Glass-Steagall Act, Southwest did utilize DBEs as underwriters. For example, with the $35 million 1999 Clark County IDRB issuance, Southwest engaged Ramirez & Co., Inc. (a DBE) as one of the underwriters. We continue to use and look to use DBEs for lease financing opportunities and investment management for employee benefit plans.**

4. In Exhibit C, Schedule III of the application, Southwest provides its estimated Sources and Uses for the period 2010-2012. Please provide this information in the format shown below, and do not include issuance of Debt Securities being requested in the current application.

   Response: **Attached [as Exhibit 2 hereto] is the revised Exhibit C, Schedule III, to Southwest's Application in the requested format, corrected to compute the projected "Net Funding Need After Consideration for All Existing Financing Authority." In the revised format, the Sources of Cash include only those projected sources that will not utilize existing financing authority.**

   a. Should "Estimated Cash Available from Internal Sources" be added to Source instead of a deduction from Uses?

      Response: **The purpose of the format of Exhibit C, Schedule III, Page 1 of 2, was to calculate the projected total external sources of funds required to fund construction expenditures and preferred securities & debt maturities/refinancing. Given that purpose, it is correct to subtract the "Estimated Cash Available from Internal Sources", to compute the projected total amount of external funds required. Exhibit C, Schedule III, Page 2 of 2, displays those projected external sources of funds.**

   b. Explain what the "Additional Cash Requirement/(Surplus)" represents.

      Response: **"Additional Cash Requirement/(Surplus)" represents short-term borrowing as a positive number and short-term investment as a negative number. This has been relabeled as "Short-Term Borrowing" on the revised Exhibit C, Schedule III.**

5. In Exhibit E, Southwest details financings that have occurred under Evergreening Authority.

   a. As discussed in D.05-02-049, does the Clark County Industrial Development Revenue Bonds (IDRB) optional refinancing benefit only customers within the Southern Nevada jurisdiction?

      Response: **Substantially all of the benefit of the Clark County IDRBs optional refinancing flow through to customers in the Southern Nevada jurisdiction. Southwest has issued IDRBs in two of its rate jurisdictions: (1) the Clark County, Nevada IDRBs for its Southern Nevada rate jurisdiction, and (2) the City of Big Bear, California IDRBs for its Southern California rate jurisdiction. In computing the cost of capital in rate proceedings, Southwest has historically**

excluded the IDRBs from the cost of debt calculation in all regulatory jurisdictions, except for the specific jurisdictions (Southern Nevada for Clark County IDRBs and Southern California for City of Big Bear IDRBs), to which the relevant IDRBs apply. The California Public Utilities Commission, the Public Utilities Commission of Nevada, the Arizona Corporation Commission and the Federal Energy Regulatory Commission have accepted this treatment for IDRBs in past regulatory proceedings.

As reflected in the IDRB indentures and financing agreements, the proceeds from the issuance of this type of debt are restricted to funding qualified construction expenditures for additions and improvements in the specific distribution systems to which the IDRBs relate. In addition, there are strict Internal Revenue Service (IRS) rules which mandate that the benefits of the tax-exempt, lower cost IDRBs must accrue to customers in the specific jurisdiction to which the IDRBs apply. Deviation from the requirements of the IRS rules could result in the loss of the IDRB tax-exempt status.

b. State whether the specific savings from use of Evergreening Authority was reflected in any formal filing with the Commission, and if so, which filing(s) and how much of the savings was reflected.

Response: **The specific savings from the use of Evergreening Authority was reflected in Southwest's last general rate case, Application 07-12-022, filed December 21, 2007. The savings from the optional refinancing of the preferred securities (September 30, 2003) and the optional refinancing of the 5-year $300 million Revolving Credit Facility (June 30, 2006) were fully reflected in computing the cost of capital in that proceeding.**

If there are questions regarding this Response, please contact Sandra K. Carolina at (702) 876-7396 or the address below.

Dated at Las Vegas, Nevada, this 7th day of May, 2010.

Respectfully submitted by,
SOUTHWEST GAS CORPORATION

/s/ Kenneth J. Kenny
Kenneth J. Kenny
Vice President and Treasurer

/s/ Sandra K. Carolina
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Exhibit 1

Southwest reverses any prior positions held and records the settled position as an increase or decrease of purchased gas under the related purchased gas adjustment ("PGA") mechanism in determining its deferred PGA balances. During the year ended December 31, 2009, Southwest paid counterparties $19.7 million in settlements of matured Swaps. Neither changes in the fair value of the Swaps nor settled amounts have a direct effect on earnings or other comprehensive income. At December 31, 2009, regulatory assets/liabilities offsetting the amounts in the above table were recorded in Prepaids and other current assets ($1.4 million), Other current liabilities ($2.6 million), Other deferred credits ($58,000), and Deferred charges and other assets ($75,000). At December 31, 2008, regulatory assets/liabilities offsetting the amounts in the above table were recorded in Prepaids and other current assets ($14.4 million) and Other deferred credits ($292,000).

The estimated fair values of Southwest's Swaps were determined at December 31, 2009 and 2008 using New York Mercantile Exchange ("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.

U.S. GAAP states that a fair value measurement should be based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy that ranks the inputs used to measure fair value by their reliability. The three levels of the fair value hierarchy are as follows:

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

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

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

The following table sets forth, by level within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of December 31, 2009 and 2008.

Level 2—Significant other observable inputs

(Thousands of dollars)	December 31, 2009	December 31, 2008
Assets at fair value:		
Prepaids and other current assets—swaps	$ 2,560	$ —
Deferred charges and other assets—swaps	58	292
Liabilities at fair value:		
Other current liabilities—swaps	(1,421)	(14,440)
Other deferred credits—swaps	(75)	—
Net Assets (Liabilities)	$ 1,122	$(14,148)

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

In January 2010, Southwest entered into two forward-starting interest rate swap ("FSIRS") agreements to hedge the risk of interest rate variability during the period leading up to the planned issuance of 10-year fixed-rate debt in December 2010 and March 2012, to replace a total of $400 million of debt maturing in February

2011 and May 2012, respectively. The counterparties to both agreements comprise four major banking institutions. The first FSIRS has a notional amount of $125 million (with Southwest as the fixed-rate payer at a rate of 4.26%) and has a mandatory termination date on or before December 7, 2010. The second FSIRS has a notional amount of $100 million (with Southwest as the fixed-rate payer at a rate of 4.78%) and has a mandatory termination date on or before March 20, 2012. Southwest has designated the FSIRS agreements as cash flow hedges of forecasted future interest payments.

Note 13—Segment Information

Company operating segments are determined based on the nature of their activities. The natural gas operations segment is engaged in the business of purchasing, transporting, and distributing natural gas. Revenues are generated from the sale and transportation of natural gas. The construction services segment is engaged in the business of providing utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

The accounting policies of the reported segments are the same as those described within Note 1—Summary of Significant Accounting Policies. NPL accounts for the services provided to Southwest at contractual (market) prices. At December 31, 2009 and 2008, accounts receivable for these services totaled $5.3 million and $6.6 million, respectively, which were not eliminated during consolidation.

The financial information pertaining to the natural gas operations and construction services segments for each of the three years in the period ended December 31, 2009 is as follows (thousands of dollars): P66

2009	Gas Operations	Construction Services	Adjustments (a)	Total
Revenues from unaffiliated customers	$1,614,843	$226,407		$1,841,250
Intersegment sales	—	52,574		52,574
Total	$1,614,843	$278,981		$1,893,824
Interest revenue	$ 189	$ 82		$ 271
Interest expense	$ 81,822	$ 1,179		$ 83,001
Depreciation and amortization	$ 166,850	$ 23,232		$ 190,082
Income tax expense	$ 40,451	$ 4,466		$ 44,917
Segment income	$ 79,420	$ 8,062		$ 87,482
Segment assets	$3,782,913	$124,755	$(1,376)	$3,906,292
Capital expenditures	$ 212,919	$ 4,066		$ 216,985

Exhibit 2

Exhibit 2

SCHEDULE III (REVISED)

SOUTHWEST GAS CORPORATION
STATEMENT OF CASH REQUIREMENTS FOR THE CALENDAR YEARS 2009, 2010 AND 2011
ESTIMATED AS OF DECEMBER 31, 2010
(Thousands of Dollars)

	2010	2011	2012	Three Year Total
Uses of Cash				
Construction Expenditures	$ 199,191	$ 188,980	$ 184,371	$ 572,542
Redemption of Pref. Securities	100,000	--	--	100,000
Maturities/Redemptions Long-Term Debt	--	200,000	500,000	700,000
Maturities/Redemptions Short-Term Debt	--	--	--	--
Total Uses of Cash	$ 299,191	$ 388,980	$ 684,371	$ 1,372,542
Sources of Cash				
Cash From Internal Sources	$ 219,534	$ 162,871	$ 77,342	$ 459,747
Drawdown of Tax-Exempt Bonds[1]	27,000	23,000	--	50,000
Issuance of Short-Term Debt[2]	--	309	106,627	106,936
Total Sources of Cash	$ 246,534	$ 186,180	$ 183,969	$ 616,683
Net Funding Needed Requiring Authority	$ (52,657)	$ (202,800)	$ (500,402)	$ (755,859)
Existing Authority for Debt Securities				335,000
Net Funding Needed after Consideration for Existing Debt Authority				(420,859)
Existing Authority for Common Stock				176,089
Existing Authority for Preferred Securities				140,000
Net Funding Need After Consideration for All Existing Financing Authority				$ (104,770)

Notes:
[1] The $50 million Clark County Tax-Exempt IDRB was issued in December 2009, with the proceeds placed into a trust to be used to finance future construction expenditures in Southwest's Southern Nevada jurisdiction. The existing authority for debt securities of $335 million reflects the issuance of the $50 million Clark County IDRB.
[2] The use of short-term debt does not utilize financing authority.

CERTIFICATE OF SERVICE

I hereby certify that pursuant to the Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of Southwest Gas Corporation's **RESPONSE TO INQUIRES OF THE ADMINISTRATIVE LAW JUDGE** to the individuals on the service list in proceeding A.10-04-008 by electronic mail.

Dated at Las Vegas, Nevada this 7th day of April, 2010.

/s/ Valerie J. Ontiveroz
Valerie J. Ontiveroz
State Regulatory Affairs
Southwest Gas Corporation
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